



FOR IMMEDIATE RELEASE

August 7, 2006

FACT SHEET

SANDERS TO RETURN MORE THAN \$1 MILLION TO WATER AND WASTEWATER DEPARTMENTS; IMPLEMENT TIGHTER ACCOUNTING CONTROLS AS A RESULT OF AUDITS

AUDITORS FIND NO EVIDENCE OF ABUSE OF RATEPAYERS FUNDS OR MISUSE OF BOND PROCEEDS

Mayor Jerry Sanders will recommend to the City Council that more than \$1 million be refunded to the City of San Diego's water and wastewater enterprise funds. The Mayor will also implement tighter accounting controls as a result of his decision to adopt recommendations made by outside auditors hired to review transactions in these funds.

At the Mayor's direction, the City of San Diego entered into an agreement earlier this year with Mayer Hoffman McCann (MHM), an Independent firm of Certified Public Accountants to perform several procedures relating to specific financial transactions within the City's Water and Wastewater Funds.

The specific areas reviewed by MHM included: 1) tracing the use of revenues generated by a series of water rate increases for fiscal years 2003, 2004 and 2005 approved by the City Council; 2) tracing the use of revenues generated by a series of wastewater rate increases for fiscal years 2002, 2003, 2004, and 2005 approved by the City Council; 3) tracing the use of the proceeds from the Series 2003 Water Revenue Bond; 4) tracing the use of the proceeds from the Series 2004 Wastewater Revenue Bond; 5) reviewing transfers and interfund charges (including Service Level Agreement charges) paid by the Water Fund to other City Funds (including the General Fund) for the fiscal year ending June 30, 2003; and 6) the same for Wastewater Funds.

Chief among their projects was to search for any pattern of abuse or misappropriation of water and wastewater funds. The auditor did not find any evidence of abuse of ratepayer funds or misuse of bond proceeds.

MAYOR AGREES WITH AUDITORS' CALL TO IMMEDIATELY RETURN \$1,072,898

- Based on findings made by MHM, Mayor Sanders will recommend to the City Council that \$644,206 be returned immediately to the Water Department enterprise fund and \$428,692 returned to the wastewater department's enterprise fund.
- The money is a repayment for a number of fund transfers that auditors at MHM labeled as questionable.
- **Mayor Sanders has previously announced his intent to return more than \$2 million to the water and wastewater funds following recommendations made by the San Diego County Grand Jury earlier this year.**
- The Mayor has recommended the return of the funds as part of his ongoing effort to maintain the integrity and focused use of water and wastewater department funds.
- The MHM auditors found five specific instances totaling \$644,206 of questionable transfers from water department funds. These transfers included:
 - \$280,000 to the City's General Fund for construction costs of the "Kiddie Hall" day care facility playground.
 - \$238,475 to the General Fund for costs associated with the City's Equal Opportunity Contracting Program
 - \$79,629 to the General Fund for a portion of the City's lobbying contract costs
 - \$35,085 to the City's Special Training Fund for reimbursement of the Career Development and Mentoring Program, and
 - \$11,017 to the Special Training Fund for certain costs of the Equal Employment Opportunity Program.
- MHM also found four instances totaling \$428,692 of questionable transfers from wastewater funds. These transfers included:
 - \$254,302 to the City's General Fund for the Equal Opportunity Contracting Program
 - \$87,353 to the General Fund for a portion of the City's lobbying contracts
 - \$73,407 to the City's Special Training Fund for reimbursement of the Career Development and Mentoring Program, and
 - \$13,630 to the Special Training Fund for certain costs of the Equal Employment Opportunity Program

MAYOR DEMANDS BETTER RECORD KEEPING TO MEET AUDITORS' CONCERNS.

- Mayor Sanders directed the City's Chief Financial Officer and MHM to search for any pattern of abuse or misappropriation of water and wastewater funds. The auditor did not find any evidence of abuse of ratepayer funds or misuse of bond proceeds.
- MHM did make recommendations for the improvement of certain accounting practices and record keeping standards. The Mayor has directed all City staff to immediately implement the changes necessary to address the MHM concerns.

- These include:
 - Confirming that all expenses from water and wastewater funds are appropriately accounted for and recorded prior to actual payments from the funds.
 - Insuring that the City conducts a more thorough analysis and keeps better records for all transactions in the Water Department's bond funds. This is to insure that bond proceeds are not drawn down prematurely or expended prior to an actual cash payment being made.
 - Improving calculation methods for Capital Improvement Projects coming from the Water bond.
 - Including a clearly written rationale for allocations made between projects as part of journal entries in the accounting ledgers for these funds.

MAYOR SETS TASK FORCE TO REFORM SERVICE LEVEL AGREEMENT PRACTICES

- Mayor Sanders has convened a task force to review and offer recommendations to reform and monitor the City's use of Service Level Agreements (SLAs).
- These agreements are used by City Departments to account for costs incurred in providing services to other City funds.
- The Mayor has already terminated those SLA's called into question by the Grand Jury and reported on by MHM.
- The new task force will complete its review process and will return to the Mayor with recommendations for improvements and reforms before the end of this calendar year.
- The task force will include Jay Goldstone, the City's Chief Financial Officer, a representative of the City Auditor's Office, a representative from the City Attorney's office and representatives drawn from the City's Public Works, Land Use and Economic Development, Neighborhood Services and Public Safety Departments.
- The Mayor will also ask Independent Budget Analyst Andrea Tevlin to participate in this task force.

August 7, 2006

TO: Council President and Members of the City Council

FROM: Mayor Jerry Sanders

SUBJECT: Management Responses to the Findings of the Water and Wastewater Agreed Upon Procedures

This memorandum is intended to serve as management's response to the findings and recommendations specified in the various reports prepared by Mayer Hoffman McCann (MHM). Attached hereto are these various reports as well as a separate response prepared by the City Attorney for those recommendations specifically focusing on the City Attorney's Office. I have reviewed the findings and recommendations and will be bringing forward for City Council consideration specific recommendations to repay the Water and Wastewater Funds based upon these findings.

The City of San Diego entered into an engagement agreement with Mayer Hoffman McCann, an Independent CPA firm, to perform several agreed upon procedures relating to specific financial transactions within the City's Water and Wastewater Funds. These agreed upon procedures were performed on a test basis in order to determine the reliability of the systems and procedures as well as to assess the City's practices of charging one fund for services provided by another. The specific areas reviewed included:

1. Tracing the use of revenues generated by a series of water rate increases for fiscal years 2003, 2004 and 2005 approved by the City Council;
2. Tracing the use of revenues generated by a series of wastewater rate increases for fiscal years 2002, 2003, 2004, and 2005 approved by the City Council;
3. Tracing the use of the proceeds from the Series 2003 Water Revenue Bond;
4. Tracing the use of the proceeds from the Series 2004 Wastewater Revenue Bond;
5. Reviewing transfers and interfund charges (including Service Level Agreement charges) paid by the Water Fund to other City funds (including the General Fund) for the fiscal year ending June 30, 2003; and
6. Reviewing transfers and interfund charges (including Service Level Agreement charges) paid by the Wastewater Fund to other City funds (including the General Fund) for the fiscal year ending June 30, 2003.

More detailed descriptions of the procedures performed by MHM are incorporated in their various reports which are attached to this memorandum. Based upon the results of the procedures performed, there were a number of findings and recommendations intended to improve past practices of the City. Management concurs with the recommendations and will take the necessary steps to improve or change past practices. Specifically, this report represents managements' responses to MHM's recommendations.

AGREED UPON PROCEDURES FOR RATE INCREASE

WATER

MHM was able to confirm the calculation of the revenue generated by each increase and to reasonably test the expenditures associated with these increases. The results suggest that the revenues generated from the series of rate increases were appropriately expended and no specific recommendations were made. As such, no responses are required by staff.

WASTEWATER

Consistent with the results of the Water rate increase review, MHM was able to confirm the calculation of the revenue generated by each increase and to reasonably test the expenditures associated with these increases. The results suggest that the revenues generated from the series of rate increases were appropriately expended and no specific recommendations were made. As such, no responses are required by staff.

AGREED UPON PROCEDURES FOR USE OF BOND PROCEEDS

WATER

MHM Recommendation 1 (page 3): We recommend that the bond fund only be charged for expenditures incurred and paid or payable. Generally Accepted Accounting Principles provide that expenditures would only be recorded if the City Attorney's office believed that it was probable that the City would have to pay the contractor the \$1.8 million. If the Attorney's office believed that the risk of loss was only possible or remote (as those terms are defined by professional standards), the liability and expenditure would not be recorded in accordance with Generally Accepted Accounting Principles.

City Management Response: Agree. Staff concurs with this recommendation and will establish procedures to ensure that the proper recording of expenses takes place and that a more thorough analysis occurs and that the results of such analysis are filed with the transaction paperwork. It is also important that bond proceeds are not drawn down prematurely and expensed prior to an actual cash payment is made.

MHM Recommendation 2 (page 3): We recommend that the CIP Analyst modify the allocation spreadsheets to include the allocation calculations for each project. The spreadsheets allocating costs across projects should also be retained with the vendor invoice to support project specific charges.

City Management Response: Agree. While the amounts in question are not material, better record keeping will be instituted.

MHM Recommendation 3 (page 4): We recommend that the individuals initiating journal entries provide documentation explaining the rationale behind allocations between projects. The documentation should be attached to the journal voucher. Additionally, when a vendor invoice is allocated between projects, the individual preparing the allocation should attach documentation explaining the allocation methodology. The documentation for transactions posted to the general ledger should stand on its own without further explanation from staff.

City Management Response: Agree. All practices associated with allocating charges will be reviewed and formal policies developed that will direct staff to provide and maintain better documentation in order to support decisions associated with the allocation costs.

WASTEWATER

MHM Recommendation 1 (page 3): We recommend that the individual initiating correcting journal entries provide documentation supporting the amount of the adjustment. The documentation should be attached to the journal voucher. The documentation for transactions posted to the general ledger should stand on its own without further explanation from staff.

City Management Response: Agree. Procedures and practices within the Auditor and Comptroller's Office will be evaluated and documented in order to ensure best practices are established and followed.

AGREED UPON PROCEDURES FOR INTER-FUND TRANSFERS

WATER

Cost allocation and the use Service Level Agreements (SLA's) has been a controversial issue for the City of San Diego. While the basic concept behind the allocation of costs to various funds and cost centers is acceptable and widely used in most government agencies throughout the country and is prescribed for by the Federal Office of Management and Budget in OMB Circular A-87, the way in which they have been implemented in San Diego has lead to more questions than answers. While there are a

series of recommendations suggested by MHM, the whole practice of the use of SLA's will be reviewed by the City. A committee will be established to review the appropriateness of all SLA's and where appropriate more conventional cost allocation approaches will be implemented. In March 2006, the City Council adopted a Cost Allocation Policy which describes when and how costs should be allocated to multiple funds and programs. This Policy will serve as the foundation for changes.

The City concurs with all of MHM's recommendations and will take immediate steps to ensure that this practice does not continue. Any funds inappropriately transferred in fiscal year 2006 will be returned to the appropriate fund, including but not limited to the findings and recommendations totally \$644,206 found on pages 2 and 3 of the MHM Water Funds Transfer Report.

In light of the global changes forthcoming in the City's past practices, responses to specific recommendations beyond concurrence will not be made.

With respect to those recommendations specific to the City Attorney's Office, attached is a specific response from his Office. The Mayor's Office concurs with his responses and will work with his staff to ensure that all corrective and appropriate steps are taken.

MHM Recommendation 1 (page 2): We recommend that the General Fund reimburse the Water Fund for a portion of this transfer (based on the percentage of the adjacent building not utilized by Water Department employees.

City Management Response: Agree. It will be my recommendation to the City Council that the City's General Fund refund the full \$280,000 to the Water Fund for the construction costs for the Kiddie Hall playground. In the future, prior to transferring any funds from the Water Fund, a clearly identified and defensible methodology will be developed.

MHM Recommendation 2 (page 2): We recommend that the City allocate costs of this program based on the number of participating project from each department. The allocation base should be reevaluated and adjusted annually.

City Management Response: Agree. It will be my recommendation to the City Council that the City's General Fund refund the full \$238,475 to the Water Fund for the costs charged for the Equal Opportunity Contracting Program. In the future, prior to transferring any funds from the Water Fund, a clearly identified and defensible methodology will be developed.

MHM Recommendation 3 (page 2): The allocation should be based on specific lobbying activities using information received from the lobbyist.

City Management Response: Agree. It will be my recommendation to the City Council that the City's General Fund refund the full \$79,629 to the Water Fund for the costs charged for the lobbying contracts. In the future, prior to transferring any funds from the Water Fund, a clearly identified and defensible methodology will be developed.

MHM Recommendation 4 (page 3): We recommend that the City evaluate the current allocation methodology and modify it to better align with the benefits to the Water Fund.

City Management Response: Agree. It will be my recommendation to the City Council that the City's General Fund refund the full \$35,085 to the Water Fund for the costs charged for the Career Development and Mentoring Program. In the future, prior to transferring any funds from the Water Fund, a clearly identified and defensible methodology will be developed.

MHM Recommendation 5 (page 3): Since the program is funded through user charges based on employee attendance, additional transfers should not be made to cover other unfunded portions of the program. Instead, the City should change the user rates to adequately cover the costs of the program.

City Management Response: Agree. It will be my recommendation to the City Council that the City's General Fund refund the full \$11,017 to the Water Fund for the costs charged Equal Opportunity Special Training Program. In the future, prior to transferring any funds from the Water Fund, a clearly identified and defensible methodology will be developed.

MHM Recommendation 6 (page 4): City documentation policies conform to accepted methodologies. In response to community concerns, we recommend that the Water and Wastewater Facilities Department augment this standard level of documentation with monthly reports describing in detail the benefits provided to the Water Department.

City Management Response: Agree.

MHM Recommendation 7 (page 5): City documentation policies conform to accepted methodologies. In response to community concern, we recommend that the Field Engineering and Water Department augment this standard level of documentation with monthly reports describing in detail the benefits provided to the Water Department.

City Management Response: Agree.

MHM Recommendation 8 (page 7): City Attorney personnel should be instructed to charge their time on their time cards in accordance with their actual hours expended rather than a predetermined allocation of time that conforms to the planned utilization by the various departments to which they were assigned.

City Management Response: Agree. See attached response from the City Attorney.

MHM Recommendation 9 (page 7): We recommend that the City Attorney's Office also provide monthly reports describing in detail the benefits that were provided to the Water Department that month.

City Management Response: Agree. See attached response from the City Attorney.

MHM Recommendation 10 (page 7): Furthermore, since the City Attorney's service level agreements only provide for enhanced levels of service, the City Attorney employees should be directed to only charge their time to the Water Fund when working on enhanced legal services. Alternatively, the City may choose to change the authorized scope of this agreement to include all legal services (rather than only enhanced levels of service, as provided in the agreement).

City Management Response: Agree. See attached response from the City Attorney.

MHM Recommendation 11 (page 7): We recommend that the City implement procedures to emphasize the ethical integrity of City procedures and practices. This would include a clear statement acknowledging the ethical expectations of the City. Procedures should be established specifying the person/persons that employees should contact regarding questionable instructions from supervisors and other questionable activities. Training should be provided regarding ethical behavior in the workplace.

City Management Response: Agree. See attached response from the City Attorney.

MHM Recommendation 12 (page 7): We further recommend that the City evaluate any employees currently employed by the City that may have participated in inappropriate practices in the past. An assessment should be made as whether or not those persons need to be re-trained or other appropriate action taken.

City Management Response: Agree. See attached response from the City Attorney.

MHM Recommendation 13 (page 7): Should the City choose to continue charging the Water and Sewer Fund for salaried personnel of the City Attorney's office, we recommend that the City explore the possibility of upgrading its payroll system to provide a more accurate allocation of costs to various cost centers. This would include the identification of projects/activities, not just funds/departments on the time cards and in the labor distribution system.

City Management Response: Agree. See attached response from the City Attorney.

MHM Recommendation 14 (page 7): We further recommend that this system allow for costing to cost centers that would accommodate hours of service for salaried personnel in excess of the standard 80 hour pay period. The pay of a salaried individual is fixed regardless of the number of hours worked that pay period. Under generally accepted accounting principles, the fixed cost of each salaried employees' compensation for a given pay period should be allocated to the various funds/departments served by that employee in proportion to the hours actually expended for each fund/department.

City Management Response: Agree. See attached response from the City Attorney. In addition, this is an issue that will be addressed Citywide.

WASTEWATER

As with the statements made relating the Water Fund inter-fund transfers, the City concurs with all of MHM's recommendations and will take immediate steps to ensure that this practice does not continue. Any funds inappropriately transferred will be returned to the appropriate fund, including but not limited to the findings and recommendations totaling \$428,692 found on pages 2 and 3 of the MHM Wastewater Funds Transfer Report.

MHM Recommendation 1 (page 2): We recommend that the City allocate costs of this program based on the number of participating projects from each department. The allocation base should be reevaluated and adjusted annually.

City Management Response: Agree. It will be my recommendation to the City Council that the City's General Fund refund the full \$254,302 to the Wastewater Fund for the costs charged for the Equal Opportunity Contracting Program. In the future, prior to transferring any funds from the Water Fund, a clearly identified and defensible methodology will be developed.

MHM Recommendation 2 (page 2): The allocation should be based on specific lobbying activities using information received from the lobbyist.

City Management Response: Agree. It will be my recommendation to the City Council that the City's General Fund refund the full \$87,353 to the Wastewater Fund for the costs charged for the lobbying contracts. In the future, prior to transferring any funds from the Water Fund, a clearly identified and defensible methodology will be developed.

MHM Recommendation 3 (page 2): We recommend that the City evaluate the current allocation methodology and modify it to better align with the benefits to the Wastewater Fund.

City Management Response: Agree. It will be my recommendation to the City Council that the City's General Fund refund the full \$73,407 to the Wastewater Fund for costs charged for the Career Development & Mentoring Special Training Program. In the future, prior to transferring any funds from the Water Fund, a clearly identified and defensible methodology will be developed.

MHM Recommendation 4 (page 3): Since the program is already funded through user charges based on employee attendance, additional transfers should not be made to cover other unfunded portions of the program. Instead, the City should change the user rates to adequately cover the costs of the program.

City Management Response: Agree. It will be my recommendation to the City Council that the City's General Fund refund the full \$13,630 to the Water Fund for the costs charged for the Equal Opportunity Special Training Program. In the future, prior to transferring any funds from the Water Fund, a clearly identified and defensible methodology will be developed.

MHM Recommendation 5 (page 4): City documentation policies conform to accepted methodologies. In response to community concerns, we recommend that the Facilities Maintenance Division augment this standard level of documentation with monthly reports describing in detail the benefits provided to the Metropolitan Wastewater Department.

City Management Response: Agree.

MHM Recommendation 6 (page 5): City documentation policies conform to accepted methodologies. In response to community concern, we recommend that the Water & Sewer Design division augment this standard level of documentation with monthly reports describing in detail the benefits provided to the Wastewater Department. The SLA agreement should also be modified to include all allowable non-labor costs that are intended to be charged through the SLA.

City Management Response: Agree.

MHM Recommendation 7 (page 5): City documentation policies conform to accepted methodologies. In response to community concerns, we recommend that the Development Services Department augment this standard level of documentation with monthly reports describing in detail the benefits provided to the Wastewater Department.

City Management Response: Agree.

Attachments

Cc: Ronne Froman, Chief Operating Officer
Jay M. Goldstone, Chief Financial Officer
Andrea Tevlin, Independent Budget Analyst



Mayer Hoffman McCann P.C.
An Independent CPA Firm
Conrad Government Services Division
2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

August 7, 2006

Jay M. Goldstone, CFO
Office of the Mayor
City of San Diego
202 "C" Street, 9th Floor
San Diego, California 92101

Dear Mr Goldstone:

Accompanying this letter are our reports concerning the results of the auditing procedures that our firm has applied to the accounting records of the Water and Sewer Funds of the City of San Diego. The purpose of this cover letter is to summarize the results of the auditing procedures performed.

AUDITING STANDARDS FOR AGREED UPON PROCEDURE ENGAGEMENTS

Auditing standards provide that reports for special purpose audit projects such as this be in the form of an agreed upon procedures report. Because of the unusual and highly focused nature of these engagements, auditing standards do not stipulate the scope of testing for agreed upon procedure engagements. Accordingly, a formal opinion is not expressed in an agreed upon procedures report. Alternatively, in agreed upon procedure reports, the procedures performed and the results of those procedures are spelled out so that readers can draw their own conclusions based upon the evidence disclosed by such engagements.

As with all audits, agreed upon procedure engagements are performed on a test basis in order to test the reliability of the systems and procedures utilized to account for financial transactions. Audit engagements do not typically involve the examination of every transaction because it would be cost prohibitive to do so. In order to maximize the effectiveness of this engagement, we designed our tests to be focused on the transactions of the Water and Sewer Funds that represented *significant dollar amounts* impacting those funds.

COST PRINCIPLES

Local governments such as the City of San Diego follow the accounting principles set forth for fund accounting. One of the basic principles of fund accounting is that the costs for activities that benefit more than one fund should be allocated to the other funds in proportion to the benefits received by the participating funds. This principle was applied in the performance of our testwork. This is in contrast to the erroneous viewpoint (not accepted by accounting standards) that only incremental (or marginal) increases in an activity's cost that was caused by other funds would be allocated to those funds.

INTERFUND TRANSFERS AND ALLOCATIONS

Our testing was applied to financial transactions of the year ended June 30, 2003. This year was selected because it represented a *recent* year (allowing complete accessibility to supporting documentation) that was viewed most likely to contain potentially questionable or aggressive accounting practices in consideration of other issues that have been raised with respect to that fiscal year. The scope of our testing would be expanded to additional fiscal years if significant problems were identified in the year subjected to our testing. The results of our testing did not warrant this expansion.

General Overhead Allocations (General Government Services Charge)

In a fund accounting system, general overhead allocations are used to assign to each fund a portion of the costs incurred by the departments of a City that provide a supporting function for other departments and funds of the City. Accounting standards provide guidelines with respect to these general overhead allocations. We found that the City's general overhead allocation system (the General Government Services Charge) conformed to these guidelines.

Service Level Agreements

In addition to the general service allocations provided by the General Government Services Charge, the City of San Diego uses other methods to assign costs to the funds that benefited from certain specific cost centers. One of those methods involved the use of Service Level Agreements. Service Level Agreements define the scope of work to be performed by one department of the City for other funds or departments of the City.

We focused our testing on the largest Service Level Agreements for the year ended June 30, 2003. As a result, we were able to account for in our testing an unusually high percentage of audit coverage. The Service Level Agreements represented in our testing accounted for over 50% of the dollar amounts charged to the Water and Sewer funds as a result of Service Level Agreements.

For these Service Level Agreements (SLA), we found that over 70% of the costs assigned under these agreements to the Water and Sewer Funds were supported by the time keeping system of the City, which tracks the specific activities performed by each employee on a daily basis. This documentation represents the recommended form of support for personnel costs. However, in view of community concerns surrounding SLA agreements, we recommended in our report that the City take the unusual step of augmenting this standard level of documentation with additional monthly reports from the servicing department that describe in detail the specific benefits received by the Water and Sewer Funds as a result of the servicing department's time keeping system charges for that month.

We found that in fiscal year 2002-03, the City Attorney's office instructed certain of its employees to charge the various funds of the City (including the Water and Sewer Funds) based on the *planned* utilization of City Attorney personnel that were made available to specified departments of the City, rather than the *actual* hours expended by those employees. This practice is **not** in conformity with generally accepted accounting principles. We found no evidence that this practice was followed by other departments of the City. The amounts in question associated with personnel of the City Attorney's office represent less than 1% of the total expenses of the Water and Sewer Funds. Our procedures indicate that this practice was substantially discontinued late in calendar year 2004.

We also tested the non-labor portion of SLA costs and found no significant unsupported or inappropriate charges.

Other Interfund Transfers Payments

In addition to the methods of cost allocation identified above, the City recorded other charges to the Water and Sewer Funds that represented transfers or payments to other funds of the City. We found that the amounts of these payments made by the Water and Sewer Funds were in proportion to the benefits received by the Water and Sewer funds, except for the following transactions that aggregate to less than 1% of the total expenses of the Water and Sewer Funds.

The following transfers recorded in the Water Fund included amounts disproportionate to the benefits received by the Water Fund:

- \$280,000 Transfer to the General Fund for construction costs for the Kiddie Hall playground
- \$238,475 Transfer to the General Fund for the Equal Opportunity Contracting Program
- \$79,629 Transfer to the General Fund for the cost of lobbying contracts
- \$35,085 Transfer to the Special Training Fund for reimbursement of the Career Development & Mentoring Program
- \$11,017 Transfer to allocate certain costs of the Equal Employment Opportunity Program.

The following transfers recorded in the Sewer Fund included amounts disproportionate to the benefits received by the Sewer Fund:

- \$254,302 Transfer to the General Fund for the Equal Opportunity Contracting Program.

- \$87,353 Transfer to the General Fund for the cost of lobbying contracts.
- \$73,407 transfer to the Special Training Fund for reimbursement of the Career Development & Mentoring Program.
- \$13,630 Transfer to allocate certain costs of the Equal Employment Opportunity Program.

USE OF FUNDS GENERATED BY RATE INCREASES

We analyzed the uses to which the City applied certain recent rate increases for the Water and Sewer Funds. Our testing revealed that the funds generated by these rate increases were used to finance *capital project expenditures* of the Water and Sewer Funds and to pay for *increases in the operational expenditures* of the Water and Sewer Funds. Transfers to the General Fund and other funds of the City were funded by resources of the Water and Sewer Funds other than the City Council-approved rate increases.

USE OF BOND PROCEEDS

We also tested the Water and Sewer Funds for inappropriate use of bond proceeds. No ineligible projects were identified. Although all uses for bond proceeds were found to be in accordance with the specifications for the bond issue, for a small number of the bond-funded transactions (less than 1% of the total amount of bond-financed project expenditures), support for the transactions was not in strict accordance with standard documentation practices. Our report set forth recommendations for the City to amend its practices to provide documentation for the use of bond proceeds that conforms to a *best practices* level of documentation.

OVERALL SUMMARY

In summary, no significant improprieties were noted with respect to the accounting practices for the Water and Sewer Funds of the City. Unsupported uses of Water and Sewer Funds (including City Attorney charges based on *anticipated*, rather than *actual* use of personnel) were minimal (totaling to less than 1% of Water and Sewer Fund expenses). Where identifiable, inappropriate charges are being restored to the appropriate funds. We found no material departures from generally accepted accounting principles.

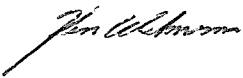
* * * * *

August 7, 2006
Jay M. Goldstone, CFO
Office of the Mayor
City of San Diego
Page 5

If you have any questions regarding the foregoing or the accompanying detailed reports, please do not hesitate to give me a call.

Sincerely,

MAYER HOFFMAN MCCANN P.C.

A handwritten signature in black ink, appearing to read "Ken Al-Imam", written in a cursive style.

Ken Al-Imam, C.P.A.
Shareholder

CITY OF SAN DIEGO

Independent Accountant's Report on
Agreed-Upon Procedures
Applied to Water Fund Rate Increases



Mayer Hoffman McCann P.C.
An Independent CPA Firm
Conrad Government Services Division
2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

Office of the Mayor
City of San Diego

Independent Accountant's Report on Agreed-Upon Procedures
Applied to Water Fund Rate Increases

On April 30, 2002, the San Diego City Council adopted resolution number R-296437 authorizing the increase of water sales revenues by 6% per year each year beginning July 1, 2002, for a period of five years through July 1, 2006. We have applied the procedures enumerated below to the City of San Diego's Water rate increases from July 1, 2002 through June 30, 2005. These procedures, which were agreed to by the City of San Diego were performed solely to assist the City in determining the uses of the revenue generated by the rate increases.

This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results of those procedures were as follows:

1. We obtained a summary of revenues and expenses for the fiscal years ended June 30, 2002 through 2005. We traced the revenues and expenses schedules to the City's accounting system to verify accuracy of the reports.

Results: The summary of revenue and expenses are presented in *Schedule 1*.

2. We obtained a calculation of revenues generated by the rate increase. We recalculated the rate increase schedule and traced the total revenues presented on the schedule to the billing system's *Daily Revenue by Rate* schedule. We also performed analytical procedures on the revenues generated by the rate increase by multiplying the amount of water sales revenue by the compounded effect of the rate increases.

Results: The revenues generated by the rate increase were as follows for the years ended (in thousands):

| | |
|---------------|-----------------|
| June 30, 2003 | \$11,036 |
| June 30, 2004 | 25,956 |
| June 30, 2005 | <u>42,712</u> |
| Total | <u>\$77,704</u> |

3. We reviewed the City Council resolution approving the water rate increases for limitations on the use of the revenues.

Result: The City Council resolution did not specify the use of the revenues generated by the rate increases.

4. We analytically compared the changes in operations and maintenance expenses to the changes in purchased water for the years ended June 30, 2003 through 2005.

Results: The increases and decreases in operations and maintenance expenses were materially consistent with the increases and decreases in purchased water for all years tested.

5. We obtained accounting system reports to determine the amount of capital project expenditures in the years ended June 30, 2003 through 2005. We also obtained accounting system reports to determine the amount of capital project expenditures that were funded by bond proceeds. The difference between these reports represents the amount of capital project expenditures that were funded by water rates and other available water fund resources.

Results: The following summarizes capital project activity for the years ended June 30, 2003 through 2005:

| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>Total</u> |
|-----------------------------------|----------------------|---------------------|---------------------|----------------------|
| Capital projects: | | | | |
| Internal costs | \$ 11,652,495 | 9,848,359 | 9,711,925 | 31,212,779 |
| Payments to 3rd party vendors | <u>90,499,192</u> | <u>94,393,017</u> | <u>94,420,933</u> | <u>279,313,142</u> |
| Total capital projects | <u>102,151,687</u> | <u>104,241,376</u> | <u>104,132,858</u> | <u>310,525,921</u> |
| Less: Bond funded projects | <u>(60,423,016)</u> | <u>(62,478,164)</u> | <u>(51,613,495)</u> | <u>(174,514,675)</u> |
| Projects funded by water revenues | <u>\$ 41,728,671</u> | <u>41,763,212</u> | <u>52,519,363</u> | <u>136,011,246</u> |

6. We compared the revenues generated by the rate increases to the increase in expenditure activity.

Results: Operating and Capital expenses incurred by the Water Fund exceeded the revenues generated by the rate increase, as demonstrated in the following schedule:

| | |
|--|--------------------|
| Additional revenues created through rate increases | \$ 77,704 |
| Increase in operating expenditures from base year | 5,647 |
| Increase in water purchases from base year | 10,699 |
| Increase in debt service expenditures from base year | 23,303 |
| Capital project expenditures | 310,526 |
| Less: Capital projects funded by bond proceeds | <u>(174,515)</u> |
| Capital projects funded by water rates | <u>136,011</u> |
| Total increase in expenditures from base year | <u>175,660</u> |
| Excess (deficiency) of revenues from rate increase | <u>\$ (97,956)</u> |

* * * * *

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the subject matter. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the City of San Diego, California and is not intended to be and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Maya Hoffman Melana A.C.

Irvine, California
August 2, 2006

CITY OF SAN DIEGO
Water Utility Fund - Analysis of Rate Increase
For the Years Ended June 30 (Unaudited)
(In Thousands)

| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|--|---------------------|------------------|------------------|------------------|
| Operating Revenues: | | | | |
| Sale of water | \$ 200,033 | 195,347 | 197,667 | 202,574 |
| Sale of water-rate increase | | 11,036 | 23,956 | 42,712 |
| Charges for services | 821 | 887 | 965 | 1,027 |
| Revenue from the use of property | 3,654 | 4,074 | 4,969 | 4,701 |
| Usage fees | 1,304 | 1,417 | 1,614 | 1,987 |
| Other | 16,163 | 9,700 | 10,362 | 14,648 |
| Total operating revenues | <u>221,975</u> | <u>222,461</u> | <u>239,533</u> | <u>267,649</u> |
| Operating Expenses: | | | | |
| Maintenance, operations and administration | 124,950 | 125,114 | 130,114 | 130,597 |
| Cost of water purchased | 97,312 | 100,094 | 100,445 | 102,096 |
| Depreciation | 17,027 | 18,457 | 20,799 | 25,676 |
| Total operating expenses | <u>239,289</u> | <u>243,665</u> | <u>251,358</u> | <u>258,369</u> |
| Operating income | <u>(17,314)</u> | <u>(21,204)</u> | <u>(11,825)</u> | <u>9,280</u> |
| Nonoperating Revenues (Expenses): | | | | |
| Earnings on investments | 11,989 | 11,848 | 7,754 | 7,368 |
| Federal grant assistance | 23 | 565 | 506 | 640 |
| Other agency grant assistance | 515 | 1,068 | 50 | 694 |
| Gain (loss) on sale of capital assets | 130 | (1,532) | (1,251) | (24,967) |
| Debt service interest payments | (18,794) | (24,358) | (26,387) | (27,235) |
| Other | 6 | 11 | (988) | 15 |
| Total nonoperating revenues (expenses) | <u>(6,131)</u> | <u>(12,398)</u> | <u>(20,316)</u> | <u>(43,485)</u> |
| Income (loss) before contributions and transfers | (23,445) | (33,602) | (32,141) | (34,205) |
| Capital contributions | 77,808 | 98,371 | 79,055 | 21,630 |
| Transfers in | - | - | - | 1,927 |
| Transfers out | (1,366) | (1,047) | (1,795) | - |
| Change in net assets | 52,997 | 63,722 | 45,119 | (10,648) |
| Net assets at beginning of year | <u>961,762</u> | <u>1,014,759</u> | <u>1,078,481</u> | <u>1,123,600</u> |
| Net assets at end of year | <u>\$ 1,014,759</u> | <u>1,078,481</u> | <u>1,123,600</u> | <u>1,112,952</u> |

CITY OF SAN DIEGO

Independent Accountant's Report on
Agreed-Upon Procedures
Applied to Use of Water Fund
Bond Proceeds



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200

Irvine, California 92612

949-474-2020 ph

949-263-5520 fx

www.mhm-pc.com

Office of the Mayor
City of San Diego

Independent Accountant's Report on Agreed-Upon Procedures
Applied to Use of Water Fund Bond Proceeds

We have applied the procedures enumerated below to the City of San Diego's Water Fund bond proceeds. These procedures, which were agreed to by the City of San Diego were performed solely to assist the City in determining the allowability of the uses of bond proceeds.

This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results of those procedures were as follows:

ANALYSIS OF SOURCES AND USES OF DEBT PROCEEDS
WATER REVENUE BONDS

1. We reviewed the Official Statement and the Trustees receipt of proceeds for the \$286,945,000 Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Bonds, Series 2002.

Results: We summarized the sources and uses of the bonds on the attached schedule (*Schedule I*).

2. We agreed the total expenditures per the Grant Project Status Report through March 31, 2006 to the bond proceeds available for capital projects per the Trustees Receipt of Proceeds.

Results: The bond proceeds available for capital projects were \$193,606,992. Total eligible project expenditures per the Grant Project Status Report were \$198,090,352 through March 31, 2006. Actual expenditures exceeded available bond proceeds due to additional funding from investment earnings of \$6,488,166 and transfers of \$4,552,797 from other Water Fund bond accounts. As of March 31, 2006, \$6,557,603 million of unexpended investment earnings and bond account transfers were available for project expenditures incurred after March 31, 2006. These funds were expended as of May 19, 2006.

3. We reviewed the Master and Supplemental Installment Purchase Agreements to identify the listing of bond approved capital projects. We also reviewed the Master Installment

Purchase Agreement to identify the procedures for modifying the listing of capital projects.

Results: Exhibit A of the 2002 Supplement Installment Purchase Agreement provides a description for each eligible bond project. In certain cases, the project description in Exhibit A references broad groupings of capital projects (annual allocations) authorized in the Water Utility Fund's capital projects ("CIP") budget. The City's CIP Budget provides for sub-projects of annual allocations to be identified at a later date. Accordingly, the annual allocation projects and sub-projects identified in the accompanying Schedule 2 are considered to be authorized uses of debt proceeds.

4. We obtained the Grant Project Status Report that lists actual expenditures by project that were funded with bond proceeds. We compared the list of bond-approved projects to the list of actual expenditures by project (*Schedule 2*).

Results: Schedule 2 provides the above detail by project. All of the projects represented authorized uses of debt proceeds. Additionally, for 99.8% of the projects summarized, we noted nothing unusual. The following items were noted in the remaining .2% of the projects:

- a. Twelve projects listed on the schedule of projects funded with bond proceeds had negative expenditure amounts totaling \$393,183. We selected the largest negative amount, \$260,107 for project number 709530 and obtained documentation supporting the negative charge. Project expenditures totaling \$371,650 were incorrectly charged to the project in the Water Fund. An adjusting entry reduced the Water Fund charges to \$0. The same entry credited the bond fund for 70% of the amount since 70% of the project was eligible to be funded with bond proceeds. This resulted in a negative \$260,107 in the bond fund because the bond fund had not previously been charged 70% of the expenditures recorded in the Water Fund.

Recommendation: A correcting journal entry should be created to eliminate the \$260,107 credit in the bond fund. This journal entry will reduce the amount of remaining available bond proceeds. The additional eleven negative charges totaling (\$133,076) listed on the bond fund's Grant Project Status Report should be investigated to determine whether adjustments also need to be made.

- b. Six projects listed on the schedule of projects funded with bond proceeds indicated higher expenditures than the expenditures reported on the total CIP project list. This is an indication that another funding source may be reporting a negative expenditure amount. The variance for the six projects totaled \$20,129.
5. We selected a sample of 9 projects (accounting for 50% of total expenditures) for additional testing. The sample included all projects with expenditures of over \$6 million

and four projects that were judgmentally selected. From the sample of 9 projects, we selected 33 transactions (accounting for \$5.6 million and 3% of total bond expenditures) and performed the following procedures:

- We determined that the project description noted on the vendor invoice agreed to the project description noted on the Grant Project Status Report.
- We determined that the amount of bond expenditures per the Grant Project Status Report agreed to the amount the City paid to the vendor.
- We determined that the documentation was sufficient to support the charge to the bond.

We noted the following:

- \$1.5 million of project expenditures tested were incurred prior to the issuance of the bonds in October 2002. The expenditures were eligible for reimbursement from bond proceeds.
- The City withheld payment of approximately \$1.8 million from a contractor due to a breach of contract. The bond funds were charged the full invoice amounts, not the amounts actually paid to the contractor. The City has created a liability account in Water Fund to account for potential amounts to be paid to the contractor. If the case is settled in the City's favor, the City plans to reduce the charges to the bond fund to the actual amount paid to the contractor.

Recommendation: We recommend that the bond fund only be charged for expenditures incurred and paid or payable. Generally Accepted Accounting Principles provide that expenditures would only be recorded if the City Attorney's office believed that it was *probable* that the City would have to pay the contractor the \$1.8 million. If the Attorney's office believed that the risk of loss was only *possible* or *remote* (as those terms are defined by professional standards), the liability and expenditure would not be recorded in accordance with Generally Accepted Accounting Principles.

- Four transactions tested totaling \$70,000 were supported by a detailed vendor invoices from Parson Infrastructure Technologies for construction safety program services for the water department and capital improvements. The invoices did not specify any project numbers. The CIP Analyst created a spreadsheet to allocate charges to all projects in the construction phase based on percentage of completion. The spreadsheets were not attached to the vendor invoices to provide support for the charges to individual projects. Additionally, the spreadsheets do not contain adequate detail to document the allocation methodology.

Recommendation: We recommend that the CIP Analyst modify the allocation spreadsheets to include the allocation calculations for each project. The

spreadsheets allocating costs across projects should also be retained with the vendor invoice to support project specific charges.

- Seven charges totaling \$674,795 were supported by journal vouchers or vendor invoices that were allocated to various projects. The allocation methodology was not documented on the journal voucher or the vendor invoice. We met with the individuals who initiated the journal vouchers or approved the vendor invoices and found that the allocation methodologies for all of the seven charges were reasonable.

Recommendation: We recommend that the individuals initiating journal entries provide documentation explaining the rationale behind allocations between projects. The documentation should be attached to the journal voucher. Additionally, when a vendor invoice is allocated between projects, the individual preparing the allocation should attach documentation explaining the allocation methodology. The documentation for transactions posted to the general ledger should stand on its own without further explanation from staff.

* * * * *

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the procedures referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the City of San Diego, California and is not intended to be and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Mayor Hoffman Melann R.C.

Irvine, California
August 2, 2006

CITY OF SAN DIEGO
2002 Water Revenue Bonds
Sources and Uses of Bond Proceeds

| | <u>Per Official Statement</u> | <u>Per Trustee's Receipt</u> | <u>Per Project Status Report</u> |
|---|-----------------------------------|----------------------------------|--------------------------------------|
| Sources: | | | |
| Principal amount | \$ 286,945,000 | 286,945,000 | |
| Net original issue premium | <u>18,238,710</u> | <u>18,238,710</u> | |
| Total sources | <u><u>\$ 305,183,710</u></u> | <u><u>305,183,710</u></u> | |
| Uses: | | | |
| Deposit to acquisition fund | \$ 193,606,992 | 193,606,992 | 198,090,352 |
| Deposit to escrow funds for the advance refunding of a portion of the 1998 Certificate | 86,346,263 | 86,346,263 | |
| Deposit to reserve fund | 21,937,658 | 21,937,658 | |
| Cost of issuance and discount | <u>3,292,797</u> | <u>3,292,797</u> | |
| Total uses | <u><u>\$ 305,183,710</u></u> | <u><u>305,183,710</u></u> | |

CITY OF SAN DIEGO
2002 Water Bonds CIP Detail

| Bond | | | CIP Funded by | | |
|---|------------|--|---------------|---------------|---------------|
| Approved | | | | Bond Proceeds | Other Sources |
| Project ID | Project ID | Description | Total CIP | | |
| Items Specifically Listed in Exhibit A: | | | | | |
| | 709101 | Sorrento Valley Water Main Relocation | \$ 4,303,229 | 40,260 | 4,262,969 |
| | 709105 | Miramar Pipeline Improvements - Phase 3 | 1,255,683 | 702,607 | 553,076 |
| | 709106 | Miramar Pipeline Improvements - Phase 4 | 71,331 | 43,948 | 27,383 |
| | 709200 | Bonita Pipeline - Phase 2 | 2,433,362 | 918,832 | 1,514,530 |
| | 709450 | Miramar Road Pipeline | 12,368,770 | 726,216 | 11,642,554 |
| | 709490 | Annual Allocation - Reclaimed Water Extensions | - | 66 | (66) |
| | 709520 | Encanto Park Pipeline | 1,795,722 | 18,981 | 1,776,741 |
| | 709530 | Torrey Pines Rd. / La Jolla Blvd. Water Main Replacement | (260,107) | (260,107) | - |
| | 709540 | North City Reclamation System | - | (4,248) | 4,248 |
| | 709550 | San Pasqual Water Reclamation System | 727,295 | 263,906 | 463,389 |
| | 709560 | South Bay Reclamation System | 1,235,266 | 16,145 | 1,219,121 |
| | 709630 | North City Pipeline Improvements | 159,112 | 108,418 | 50,694 |
| | 729200 | Black Mountain Water Treatment Plant Property Acquisition | 3,056,162 | 29,918 | 3,026,244 |
| | 732160 | Black Mountain Reservoir | 16,739,869 | 1,605,044 | 15,134,825 |
| | 732290 | 65th & Herrick Water Pump Station | 3,028,538 | 1,203 | 3,027,335 |
| | 732460 | Mid City Pipeline | 20,822,860 | 1,359,685 | 19,463,175 |
| | 732480 | Pomerado Pipeline No. 2 | 244,273 | 244,273 | - |
| | 732490 | South San Diego Pipeline No. 2 | 36,144,711 | 5,157,417 | 30,987,294 |
| | 732500 | Otay Water Treatment Plant Clearwell Storage | 17,476,912 | 11,280,609 | 6,196,303 |
| | 732610 | Alvarado Water Treatment Plant Upgrade & Expansion - Phase 1 | 109,869,122 | 4,550,794 | 105,318,328 |
| | 732613 | Alvarado Water Treatment Plant Upgrade & Expansion - Phase 2 | 47,757,984 | 22,415,872 | 25,342,112 |
| | 732614 | Alvarado Water Treatment Plant - Earl Thomas Reservoir | 30,579,697 | 5,522,335 | 25,057,362 |
| | 732650 | Barrett Reservoir Reconstruction | 1,140,244 | 138 | 1,140,106 |
| | 732680 | Deerfield Water Pump Station | 7,527,453 | 31,604 | 7,495,849 |
| | 732720 | Soledad Reservoir Rehabilitation | 1,964,300 | 17,544 | 1,946,756 |
| | 732830 | Raw Water Master Plan | 312,068 | 300 | 311,768 |
| | 732840 | Miramar Water Treatment Plant Upgrade & Expansion | 77,754,465 | 38,492,135 | 39,262,330 |
| | 732841 | Miramar Water Treatment Plant (WTP) Early Start Improvements, Ph | 14,324,679 | 1,992,534 | 12,332,145 |
| | 732842 | Miramar Water Treatment Plant (WTP) Early Start Improvements, Ph | 21,300,085 | 14,747,395 | 6,552,690 |
| | 732850 | Otay Water Treatment Plant Upgrade & Expansion | 4,456,772 | 1,333,590 | 3,123,182 |
| | 732860 | Otay Second Pipeline | 2,498,519 | 34,856 | 2,463,663 |
| | 732910 | Raw Water Reservoir Water Quality System | 651,277 | 18,860 | 632,417 |
| | 733010 | Serra Mesa Pump Station | 641,005 | 19,328 | 621,677 |
| | 733170 | Barrett Reservoir Outlet Tower | 379,093 | 36,231 | 342,862 |
| | 733210 | Morena Reservoir Outlet Tower Upgrade | 322,332 | 24,158 | 298,174 |
| | 733220 | Otay Water Treatment Plant Raw Water Pump Conversion | 740,550 | 427,334 | 313,216 |
| | 733270 | Waring Rd. Pump Station Upgrade | 4,048,051 | 1,589,394 | 2,458,657 |
| | 733280 | Rancho Bernardo Reservoir Upgrade | 511,715 | 293,645 | 218,070 |
| | 733330 | Annual Allocation - Air Valve Adjustments | - | 1,060 | (1,060) |
| | 733380 | Water Department Central Facility | 23,361,585 | 664,566 | 22,697,019 |
| | 733410 | Black Mountain Road Pipelines Project | 21,378,139 | 9,263,077 | 12,115,062 |
| | 733420 | Rancho Bernardo Pump Station No. 2 | 396,948 | 254,760 | 142,188 |
| | 733430 | Lower Otay Reservoir Emergency Outlet Tower Improvement | 303,574 | 18,136 | 285,438 |
| | 733460 | Parkland Pump Station | 430,266 | 62,831 | 367,435 |
| | 733470 | CIP Program Management (Parsons) | 34,857,457 | - | 34,857,457 |
| | 733480 | Telemetry Control Systems (SCADA) - Phase 2 | 12,496,091 | 3,716,457 | 8,779,634 |
| | 733500 | Water Flow Meter Installation | 314,922 | 122,583 | 192,339 |
| | 739000 | Annual Allocation - Pressure Reduction Facility Upgrades | 253 | 253 | - |
| | 759280 | El Capitan Dam Piezometers Replacements | 166,191 | 295 | 165,896 |
| | 759310 | Water Department Security Upgrades | 4,374,967 | 1,645,564 | 2,729,403 |
| | 759320 | Groundwater Asset Development Program | 4,570,239 | 978,552 | 3,591,687 |

| Bond Approved | | | CIP Funded by | | |
|--|------------|--|---------------|---------------|---------------|
| Project ID | Project ID | Description | Total CIP | Bond Proceeds | Other Sources |
| <i>Items Referenced as Annual Allocations in Exhibit A</i> | | | | | |
| 73-327.1 | | Adobe Falls Water Pump Station - Upgrade | 47,439 | 33,208 | 14,231 |
| 73-261.5 | | Alvarado Water Treatment Plant - Upgrade and Expansion - Phase I | 40,243 | 28,172 | 12,071 |
| 73-261.7 | | Alvarado Water Treatment Plant - Upgrade and Expansion - Phase I | 1,636 | 1,145 | 491 |
| 73-261.8 | | Alvarado Water Treatment Plant - Upgrade and Expansion - Phase I | 2,164 | 1,515 | 649 |
| 73-333.1 | | Annual Allocation - Air Valve Adjustments and Relocations | 156,994 | 7,440 | 149,554 |
| 73-333.2 | | Annual Allocation - Air Valve Adjustments and Relocations | 37,712 | 25,628 | 12,084 |
| 74-925.1 | | Annual Allocation - Dams and Reservoirs | 2,621,211 | 970,171 | 1,651,040 |
| 74-925.2 | | Annual Allocation - Dams and Reservoirs | 485,274 | 88,999 | 396,275 |
| 74-925.3 | | Annual Allocation - Dams and Reservoirs | 485,274 | 6,813 | 478,461 |
| 74-925.4 | | Annual Allocation - Dams and Reservoirs | 176,628 | 13,478 | 163,150 |
| 74-925.5 | | Annual Allocation - Dams and Reservoirs | 81,092 | 11,865 | 69,227 |
| 74-925.6 | | Annual Allocation - Dams and Reservoirs | 8,510 | 5,958 | 2,552 |
| 73-900.1 | | Annual Allocation - Pressure Reduction Facilities Upgrade | 1,211,131 | 847,791 | 363,340 |
| 73-900.2 | | Annual Allocation - Pressure Reduction Facilities Upgrade | 1,075,141 | 752,348 | 322,793 |
| 73-900.3 | | Annual Allocation - Pressure Reduction Facilities Upgrade | 7,986 | 5,590 | 2,396 |
| 70-949.1 | | Annual Allocation - Reclaimed Water Extension | 990,743 | 569,300 | 421,443 |
| 70-949.2 | | Annual Allocation - Reclaimed Water Extension | 314,743 | 152,395 | 162,348 |
| 70-949.3 | | Annual Allocation - Reclaimed Water Extension | 689,730 | 407,718 | 282,012 |
| 70-949.4 | | Annual Allocation - Reclaimed Water Extension | 8,256 | 5,779 | 2,477 |
| 70-949.5 | | Annual Allocation - Reclaimed Water Extension | 240,043 | 3,753 | 236,290 |
| 70-949.6 | | Annual Allocation - Reclaimed Water Extension | 11,551 | 2,577 | 8,974 |
| 70-949.8 | | Annual Allocation - Reclaimed Water Extension | 11,451 | 2,688 | 8,763 |
| 73-230.7 | | Annual Allocation - Various Lakes and Docks | 150,376 | 1,671 | 148,705 |
| 73-230.8 | | Annual Allocation - Various Lakes and Docks | 593,497 | 830 | 592,667 |
| 73-230.9 | | Annual Allocation - Various Lakes and Docks | 216,021 | 690 | 215,331 |
| 73-263.2 | | Annual Allocation - Water Pump Station Restorations | 10,509 | 438 | 10,071 |
| 73-263.3 | | Annual Allocation - Water Pump Station Restorations | 4,996,041 | 3,210,668 | 1,785,373 |
| 75-925.1 | | Annual Allocation - Water Service Meter Replacements | 63,321 | 165 | 63,156 |
| 75-925.2 | | Annual Allocation - Water Service Meter Replacements | 251,816 | 5,174 | 246,642 |
| 75-925.3 | | Annual Allocation - Water Service Meter Replacements | 141,015 | 38,044 | 102,971 |
| 75-925.4 | | Annual Allocation - Water Service Meter Replacements | 330,978 | 231,685 | 99,293 |
| 75-925.5 | | Annual Allocation - Water Service Meter Replacements | 482,499 | 338,108 | 144,391 |
| 75-925.6 | | Annual Allocation - Water Service Meter Replacements | 112,024 | 78,422 | 33,602 |
| 75-925.7 | | Annual Allocation - Water Service Meter Replacements | 354,740 | 248,319 | 106,421 |
| 75-925.8 | | Annual Allocation - Water Service Meter Replacements | 5,356 | 3,749 | 1,607 |
| 75-925.9 | | Annual Allocation - Water Service Meter Replacements | 93,749 | 65,859 | 27,890 |
| 73-216.1 | | Black Mountain Reservoir | 21,009 | 14,706 | 6,303 |
| 72-920.1 | | Black Mountain Water Treatment Plant | 6,453 | 1,540 | 4,913 |
| 75-932.1 | | Ground Asset Development Program | 120,079 | 84,478 | 35,601 |
| 75-932.2 | | Ground Asset Development Program | - | (702) | 702 |
| 75-932.8 | | Ground Asset Development Program | - | 985 | (985) |
| 73-246.1 | | Mid-City Pipeline | 9,414 | 6,461 | 2,953 |
| 73-284.3 | | Mirimar Water Treatment Plant - Upgrade and Expansion | 56,048 | 38,420 | 17,628 |
| 73-284.5 | | Mirimar Water Treatment Plant - Upgrade and Expansion | 230 | 161 | 69 |
| 70-954.1 | | North Cit Reclamation System | 11,435,341 | 5,533,509 | 5,901,832 |
| 70-954.2 | | North Cit Reclamation System | 5,093,121 | 2,590,881 | 2,502,240 |
| 70-954.3 | | North Cit Reclamation System | 4,253,733 | 1,228,623 | 3,025,110 |
| 70-954.4 | | North Cit Reclamation System | 1,136,994 | 609,072 | 527,922 |
| 70-954.5 | | North Cit Reclamation System | 515,884 | 251,079 | 264,805 |
| 70-954.6 | | North Cit Reclamation System | 3,204,761 | 1,550,178 | 1,654,583 |
| 70-954.7 | | North Cit Reclamation System | 209,721 | 122,571 | 87,150 |
| 70-954.8 | | North Cit Reclamation System | 567,061 | 227,242 | 339,819 |
| 70-954.9 | | North Cit Reclamation System | 117,214 | 84,224 | 32,990 |
| 73-286.2 | | Otay Second Pipeline Improvements | 676,019 | 473,214 | 202,805 |
| 73-286.3 | | Otay Second Pipeline Improvements | 1,516,843 | 768,997 | 747,846 |

| Bond Approved Project ID | Project ID | Description | Total CIP | CIP Funded by | |
|--------------------------------|------------|---|-----------|---------------|---------------|
| | | | | Bond Proceeds | Other Sources |
| | 73-286.4 | Otay Second Pipeline Improvements | 29,861 | 20,173 | 9,688 |
| | 73-286.5 | Otay Second Pipeline Improvements | 6,937 | 4,722 | 2,215 |
| | 73-286.6 | Otay Second Pipeline Improvements | 1,362,449 | 926,775 | 435,674 |
| | 73-286.7 | Otay Second Pipeline Improvements | 7,883 | 4,316 | 3,567 |
| | 73-286.8 | Otay Second Pipeline Improvements | 526,380 | 364,906 | 161,474 |
| | 73-286.9 | Otay Second Pipeline Improvements | 1,756,277 | 1,032,860 | 723,417 |
| | 73-250.1 | Otay Water Treatment Plant - Mass Grading and Clearwell Storage | 285 | 200 | 85 |
| | 73-285.1 | Otay Water Treatment Plant - Upgrade - Phase II | 591,539 | 367,320 | 224,219 |
| | 73-285.2 | Otay Water Treatment Plant - Upgrade - Phase II | 12,056 | 5,073 | 6,983 |
| | 73-291.1 | Reservoir Water Quality Systems | 25 | 18 | 7 |
| | 70-955.3 | San Pasqual Water Reclamation System | 10,850 | 3,550 | 7,300 |
| | 70-955.4 | San Pasqual Water Reclamation System | 234,495 | 74,815 | 159,680 |
| | 70-955.5 | San Pasqual Water Reclamation System | 87,599 | 102,396 | (14,797) |
| | 70-955.7 | San Pasqual Water Reclamation System | 295,278 | 160,555 | 134,723 |
| | 70-955.8 | San Pasqual Water Reclamation System | 1,636,801 | 1,111,104 | 525,697 |
| | 70-955.9 | San Pasqual Water Reclamation System | 5,445,335 | 3,245,781 | 2,199,554 |
| | 70-956.1 | South Bay Reclaimed Water Pipeline | 1,016,046 | 490,421 | 525,625 |
| | 70-956.2 | South Bay Reclaimed Water Pipeline | 472 | 2,914 | (2,442) |
| | 70-956.3 | South Bay Reclaimed Water Pipeline | 1,331 | 926 | 405 |
| | 70-953.1 | Torrey Pines Road/La Jolla Boulevard Water Main Replacement | 4,780,619 | 1,853,505 | 2,927,114 |
| | 70-953.2 | Torrey Pines Road/La Jolla Boulevard Water Main Replacement | 6,271,003 | 3,633,608 | 2,637,395 |
| | 70-953.3 | Torrey Pines Road/La Jolla Boulevard Water Main Replacement | 841,208 | 42,907 | 798,301 |
| | 70-953.4 | Torrey Pines Road/La Jolla Boulevard Water Main Replacement | 397,396 | 199,918 | 197,478 |
| | 70-953.5 | Torrey Pines Road/La Jolla Boulevard Water Main Replacement | 2,074,837 | 1,438,474 | 636,363 |
| | 73-338.1 | Water Department Central Facility | 144,453 | 98,163 | 46,290 |
| | 75-931.1 | Water Department Security Upgrade | 135,448 | 80,135 | 55,313 |
| | 75-931.2 | Water Department Security Upgrade | 343,421 | 104,028 | 239,393 |
| | 75-931.3 | Water Department Security Upgrade | 48,940 | 34,255 | 14,685 |
| | 75-931.4 | Water Department Security Upgrade | 2,091 | 1,071 | 1,020 |
| | 75-931.5 | Water Department Security Upgrade | 863,111 | 466,092 | 397,019 |
| | 75-931.6 | Water Department Security Upgrade | 208,492 | 141,757 | 66,735 |
| | 75-931.7 | Water Department Security Upgrade | 879 | 615 | 264 |
| | 75-931.8 | Water Department Security Upgrade | 57,208 | 32,332 | 24,876 |
| | 75-931.9 | Water Department Security Upgrade | 1,889 | 160 | 1,729 |
| 73-230.0 | 73-231.0 | BLF - Mirimar Reservoir State Contract | 379,264 | 739 | 378,525 |
| 73-230.0 | 73-231.1 | BLF - Lower Otay Reservoir State Contract | 401,810 | 657 | 401,153 |
| 73-230.0 | 73-231.2 | BLF - San Vicente Reservoir State Contract | 167,069 | 985 | 166,084 |
| 73-230.0 | 73-231.3 | BLF - San Vicente Reservoir State Contract | 160,293 | 903 | 159,390 |
| 73-277.0 | 73-309.2 | Pt Loma Reservoir Rehab | 3,289,820 | 21,157 | 3,268,663 |
| 73-277.0 | 73-309.4 | Chesterton Standpipe Reservoir | 439,174 | 1,284 | 437,890 |
| 73-277.0 | 73-309.7 | Emerald Hills Standpipe Reservoir | 185,975 | 3,803 | 182,172 |
| 73-277.0 | 73-309.8 | Lomita Village Standpipe Reservoir | 565,750 | 1,565 | 564,185 |
| 73-277.0 | 73-400.0 | Encanto Standpipe Reservoir | 309,634 | 4,269 | 305,365 |
| 73-277.0 | 73-400.1 | University Heights Elevated Tank Res. | 5,942 | 292 | 5,650 |
| 73-277.0 | 73-400.2 | La Jolla Country Club Reservoirs | 443,218 | 16,491 | 426,727 |
| 73-277.0 | 73-400.4 | Pomerado Park Reservoir Rehab | 304,800 | 91,808 | 212,992 |
| 73-277.0 | 73-400.5 | Paradise Mesa Standpipe Reservoir | 455,130 | 1,546 | 453,584 |
| 73-277.0 | 73-400.6 | Catalina Standpipe/Resereno - Ph II | 313,483 | 2,524 | 310,959 |
| 73-277.0 | 73-400.7 | La Jolla View Reservoir Deterd. Stell | 121,315 | 6,959 | 114,356 |
| 73-277.0 | 73-400.8 | La Jolla Exchange Reservoir | 68,768 | 37 | 68,731 |
| 73-083.0 | 73-855.3 | La Jolla Group Job 716 | 1,196 | 1,196 | - |
| 73-083.0 | 73-834.3 | Water Main Repl Group 464A | 935,250 | 3,951 | 931,299 |
| 73-083.0 | 73-836.1 | Water Main Repl. Group #601 | 392,680 | 1,115 | 391,565 |
| 73-083.0 | 73-836.2 | Water Main Repl. Group #490 | 744,193 | 26 | 744,167 |
| 73-083.0 | 73-836.8 | Water Main Repl. Group #486 | 1,098,038 | 64 | 1,097,974 |
| 73-083.0 | 73-837.0 | Water Main Repl. Group #79 | 932,690 | 68,600 | 864,090 |
| 73-083.0 | 73-837.1 | Water Main Repl. Group #76 | 182,804 | 4,402 | 178,402 |

| Bond Approved | | Description | Total CIP | CIP Funded by | |
|---------------|------------|--|-----------|---------------|---------------|
| Project ID | Project ID | | | Bond Proceeds | Other Sources |
| 73-083.0 | 73-837.8 | Water Main Repl. Group #90 | 728,307 | 61,059 | 667,248 |
| 73-083.0 | 73-838.8 | Water Main Repl. Group #494 | 1,001,563 | 56,971 | 944,592 |
| 73-083.0 | 73-839.2 | Water Main Replacement Group 501 | 1,889,257 | 1,174,227 | 715,030 |
| 73-083.0 | 73-839.6 | Water Main Replacement Group 606 | 1,040,706 | 52 | 1,040,654 |
| 73-083.0 | 73-839.9 | Water Main Replacement Group 505 | 1,012,818 | 286 | 1,012,532 |
| 73-083.0 | 73-840.3 | Lead Service Replacement Group 517 | - | (32,264) | 32,264 |
| 73-083.0 | 73-840.4 | Lead Service Replacement Group 518 | - | (141) | 141 |
| 73-083.0 | 73-840.5 | Lead Service Replacement Group 516 - Construction | 2,358,237 | 1,458,640 | 899,597 |
| 73-083.0 | 73-840.9 | Lead Service Replacement Group 514 | 1,947,979 | 97 | 1,947,882 |
| 73-083.0 | 73-841.3 | Lead Service Replacement Group 608 | 48,696 | 257 | 48,439 |
| 73-083.0 | 73-841.5 | Water Group 515 | 1,337,959 | 46 | 1,337,913 |
| 73-083.0 | 73-842.1 | Replacement Group 522 | 1,510,655 | 10,913 | 1,499,742 |
| 73-083.0 | 73-842.3 | Sewer and Water Group 616 | 60,572 | 1,563 | 59,009 |
| 73-083.0 | 73-842.4 | Del Cerro Highlands Pump Plant | 1,379,583 | 4,898 | 1,374,685 |
| 73-083.0 | 73-842.7 | Water Group 620 | 1,303,432 | 50,220 | 1,253,212 |
| 73-083.0 | 73-842.9 | Water Group 615 | 1,268,687 | 215 | 1,268,472 |
| 73-083.0 | 73-843.1 | Water Main Replacement 489 | 939,758 | 40,970 | 898,788 |
| 73-083.0 | 73-843.6 | Water Main Group 521 | 433,414 | 111,391 | 322,023 |
| 73-083.0 | 73-844.3 | Replacement Group 519 | 2,325,303 | 1,522,479 | 802,824 |
| 73-083.0 | 73-844.4 | Replacement Group 520 | 2,360,089 | 202,263 | 2,157,826 |
| 73-083.0 | 73-844.6 | Water Group 518-B | 562,758 | 216 | 562,542 |
| 73-083.0 | 73-845.1 | Water/Sewer Group 529 & 530 | 2,491,941 | 963 | 2,490,978 |
| 73-083.0 | 73-845.2 | Embarcadero; Water Group Replacement 532 | 358,178 | 28,072 | 330,106 |
| 73-083.0 | 73-845.3 | Water/Sewer Group 604 | 105,442 | 164 | 105,278 |
| 73-083.0 | 73-845.5 | Airport; Water Group Replacement 533 | 169,523 | 9,853 | 159,670 |
| 73-083.0 | 73-845.8 | Group 527A - Water Main Replacement | 1,686,041 | 29,844 | 1,656,197 |
| 73-083.0 | 73-846.0 | Plaza de Panama Fountain-realign the water main | 8,740 | 366 | 8,374 |
| 73-083.0 | 73-846.2 | Water Group 640 | 68,063 | 49,041 | 19,022 |
| 73-083.0 | 73-846.4 | Water Group 524 | 2,469,866 | 1,254,992 | 1,214,874 |
| 73-083.0 | 73-847.0 | Group 530 - Water Main Replacement | 96,581 | 48,945 | 47,636 |
| 73-083.0 | 73-847.1 | Group 530A - Water Main Replacement | 1,381,669 | 766 | 1,380,903 |
| 73-083.0 | 73-847.3 | Harbor Island Water Main-Secondary System | 240,554 | 43,242 | 197,312 |
| 73-083.0 | 73-847.4 | Carmel Valley Road west of I-5 Water Mains | 812 | 214 | 598 |
| 73-083.0 | 73-847.5 | Water Group 638-Penninsula Community | - | (13,481) | 13,481 |
| 73-083.0 | 73-847.8 | Water Group Replacement - Group 637 | 517,540 | 23,773 | 493,767 |
| 73-083.0 | 73-847.9 | Group 649 - Water Main Replacement - Kensington | 82,994 | 46,521 | 36,473 |
| 73-083.0 | 73-848.1 | Group 650 - Water Main Replacement - Kensington | 103,565 | 53,440 | 50,125 |
| 73-083.0 | 73-848.2 | Group 651 - Water Main Replacement - Kensington | 115,985 | 4,267 | 111,718 |
| 73-083.0 | 73-848.3 | Group 652 - Water Main Replacement - Kensington | 23,088 | 181 | 22,907 |
| 73-083.0 | 73-848.4 | El Capitan Pipeline- University Hts - Trestle #12 | 444,758 | 7,835 | 436,923 |
| 73-083.0 | 73-848.7 | Group 658 - Water Main RL - Ocean Beach/Peninsula | 227,126 | 45,570 | 181,556 |
| 73-083.0 | 73-848.9 | Group 661 - Water Main RL - Mission Hills (Presidio) | 312,128 | 339 | 311,789 |
| 73-083.0 | 73-849.0 | Group 662 - Water Main RL - Mission Hills (Heritage) | 356,072 | 34,902 | 321,170 |
| 73-083.0 | 73-849.1 | Group 663 - Water Main RL - Mission Hills (Old Town) | 555,035 | (17,159) | 572,194 |
| 73-083.0 | 73-849.5 | Mirimar 712/N. City 610-Pressure Zones Water Study | 154,109 | 18,189 | 135,920 |
| 73-083.0 | 73-849.7 | Group Job 489A Water Main Replacement | 1,315,133 | 12,277 | 1,302,856 |
| 73-083.0 | 73-849.8 | Group Job 490A Water Main Replacement | 1,040,407 | 19,476 | 1,020,931 |
| 73-083.0 | 73-849.9 | Water Group 668 Ocean Beach - So Mstr Repl | 33,383 | 16,285 | 17,098 |
| 73-083.0 | 73-850.0 | Water Group 667 Ocean Beach - So Mstr Repl | 679,709 | 423,857 | 255,852 |
| 73-083.0 | 73-850.1 | Water Group 669 Ocean Beach - So Mstr Repl | 520,256 | 9,474 | 510,782 |
| 73-083.0 | 73-850.2 | Water Group 666 Ocean Beach - So Mstr Repl | 607,167 | 398,074 | 209,093 |
| 73-083.0 | 73-850.3 | Water Group 670 Ocean Beach - So Mstr Repl | 1,302,351 | 835,098 | 467,253 |
| 73-083.0 | 73-850.4 | Water Group 660 Ocean Beach - So Mstr Repl | 255,042 | 1,596 | 253,446 |
| 73-083.0 | 73-850.5 | Water Grp 473 Golden Hill Water Main Replacement | 1,863,535 | 9,691 | 1,853,844 |
| 73-083.0 | 73-850.6 | Water Group Job 673 | 1,351,603 | 702,939 | 648,664 |
| 73-083.0 | 73-850.7 | Water Group Job 674 Water Main Replacement | 405,091 | 34 | 405,057 |
| 73-083.0 | 73-850.8 | Water Group Job 671 Water Main Replacement | 411,888 | 3,872 | 408,016 |

| Bond Approved | | | CIP Funded by | | |
|---------------|------------|---|---------------|---------------|---------------|
| Project ID | Project ID | Description | Total CIP | Bond Proceeds | Other Sources |
| 73-083.0 | 73-851.2 | Water Group 680 | 220,241 | 116,693 | 103,548 |
| 73-083.0 | 73-851.3 | Water Group 675 | 1,178,472 | 734,895 | 443,577 |
| 73-083.0 | 73-851.5 | Water Group 676 | 121,292 | 63,212 | 58,080 |
| 73-083.0 | 73-851.6 | Water Group 681 | 52,656 | 837 | 51,819 |
| 73-083.0 | 73-851.7 | Water Group 282 | 69,235 | 39,097 | 30,138 |
| 73-083.0 | 73-851.8 | Suncrest Dr Water Repl. | 1,541,113 | 8 | 1,541,105 |
| 73-083.0 | 73-851.9 | Suncrest Dr Water Repl. | 123,822 | 1,074 | 122,748 |
| 73-083.0 | 73-852.0 | Arroyo Sorrento Rd | 942,226 | 1,551 | 940,675 |
| 73-083.0 | 73-852.1 | Centre City: GRP 535 | 2,277,319 | 1,194,464 | 1,082,855 |
| 73-083.0 | 73-852.2 | Centre City: GRP 536 | 1,584,218 | 796,426 | 787,792 |
| 73-083.0 | 73-852.3 | Centre City: GRP 537 | 2,663,009 | 1,220,319 | 1,442,690 |
| 73-083.0 | 73-852.4 | Centre City: GRP 538 | 1,523,578 | 717,385 | 806,193 |
| 73-083.0 | 73-852.5 | Centre City: GRP 539 | 3,507,160 | 2,311,023 | 1,196,137 |
| 73-083.0 | 73-852.6 | City Heights: GRP 686 | 787,761 | 47,178 | 740,583 |
| 73-083.0 | 73-852.7 | Water Grp Job 525D | 1,409,920 | 807,244 | 602,676 |
| 73-083.0 | 73-852.8 | City Heights: Group 684 | 119,316 | 15,771 | 103,545 |
| 73-083.0 | 73-852.9 | Group Job 525A | 2,054,163 | 998,563 | 1,055,600 |
| 73-083.0 | 73-853.0 | Group Job 525B | 188,379 | 22,286 | 166,093 |
| 73-083.0 | 73-853.1 | Group Job 525C | 107,727 | 25,322 | 82,405 |
| 73-083.0 | 73-853.2 | City Heights Grp: 683 | 360,851 | 230,723 | 130,128 |
| 73-083.0 | 73-853.3 | University Heights GJ 688 | 952,750 | 610,506 | 342,244 |
| 73-083.0 | 73-853.4 | University Heights GJ 690 | 508,636 | 327,764 | 180,872 |
| 73-083.0 | 73-853.5 | Water Main Repl Group 464B | 80,170 | 34,765 | 45,405 |
| 73-083.0 | 73-853.6 | Water Main Repl Group 464C | 2,050,176 | 1,145,509 | 904,667 |
| 73-083.0 | 73-853.7 | Redwood & 31st - Phase II Water Group 694 | 185,045 | 97,016 | 88,029 |
| 73-083.0 | 73-853.8 | Group Job 691 - Northpark | 14,675 | 426 | 14,249 |
| 73-083.0 | 73-853.9 | Group Job 693 - Northpark | 70,387 | 34,033 | 36,354 |
| 73-083.0 | 73-854.0 | Group Job 695 - Southpark | 41,143 | 19,016 | 22,127 |
| 73-083.0 | 73-854.2 | Group Job 702 | 1,004,044 | 633,408 | 370,636 |
| 73-083.0 | 73-854.4 | Talmadge Water Group Repl Job 704 | 1,345,441 | 862,505 | 482,936 |
| 73-083.0 | 73-854.5 | Talmadge Water Group Repl Job 705 | 60,326 | 19,128 | 41,198 |
| 73-083.0 | 73-854.6 | Middletown Group Job 699 | 180,310 | 90,189 | 90,121 |
| 73-083.0 | 73-854.7 | Middletown Group Job 701 | 2,460 | 155 | 2,305 |
| 73-083.0 | 73-854.8 | La Jolla Boulevard Pipeline | 540,907 | 2,715 | 538,192 |
| 73-083.0 | 73-855.0 | Talmadge Water Group Job 703A | 78,565 | 52,407 | 26,158 |
| 73-083.0 | 73-855.1 | La Jolla Group Job 540 | 329,243 | 120,550 | 208,693 |
| 73-083.0 | 73-855.2 | La Jolla Group Job 541 | 134,057 | 10,385 | 123,672 |
| 73-083.0 | 73-855.3 | La Jolla Group Job 716 | 71,694 | 37,509 | 34,185 |
| 73-083.0 | 73-855.5 | N Encanto Wtr Improvement Water Group 543 | 1,322,745 | 801,195 | 521,550 |
| 73-083.0 | 73-855.6 | Group Job 709W | | (141) | 141 |
| 73-083.0 | 73-855.8 | Group Job 711W | 76,768 | (41,369) | 118,137 |
| 73-083.0 | 73-855.9 | Group Job 717 | 360 | 252 | 108 |
| 73-083.0 | 73-856.0 | Group Job 717 | 45,104 | 347 | 44,757 |
| 73-083.0 | 73-856.1 | Group Job 720 | 16,732 | 9,629 | 7,103 |
| 73-083.0 | 73-856.4 | Downtown Enhancements CIP 73-083.0 | 817,837 | 21,826 | 796,011 |
| 73-083.0 | 73-856.5 | Group Job 544 | 237,032 | 118,729 | 118,303 |
| 73-083.0 | 73-856.6 | Group Job 545 | 1,132,264 | 491,375 | 640,889 |
| 73-083.0 | 73-856.7 | Group Job 546 | 153,640 | 27,168 | 126,472 |
| 73-083.0 | 73-857.0 | Group Job 687A | 577 | 168 | 409 |
| 73-083.0 | 73-857.2 | Group Job 548 | 1,752 | 93 | 1,659 |
| 73-083.0 | 73-857.3 | Vista Sorrento Parkway Main Replc | 6,734 | 2,238 | 4,496 |
| 73-083.0 | 73-857.4 | AA-Water & Sewer Group 725 | 186,978 | 61,816 | 125,162 |
| 73-083.0 | 73-857.5 | AA-Water Group 552 | 28,673 | 466 | 28,207 |
| 73-083.0 | 73-857.6 | AA-Water Group 551 | 15,577 | 2 | 15,575 |
| 73-083.0 | 73-857.7 | AA-Water Group 550 | 234,874 | 83,360 | 151,514 |
| 73-083.0 | 73-857.8 | AA-Water Group 549 | 208,312 | 83,409 | 124,903 |
| 73-083.0 | 73-857.9 | Group Job 723 | 119,018 | 55,182 | 63,836 |

| Bond Approved Project ID | Project ID | Description | Total CIP | CIP Funded by | |
|--------------------------------|------------|-------------------------------------|-----------|---------------|---------------|
| | | | | Bond Proceeds | Other Sources |
| 73-083.0 | 73-858.1 | Water Main Replc Group 661 B | - | (2,512) | 2,512 |
| 73-083.0 | 73-858.3 | Sewer and Water Repl Group 697 | 55,434 | 30,034 | 25,400 |
| 73-083.0 | 73-858.5 | College Area Group Job 553 | 1,923,195 | 1,116,472 | 806,723 |
| 73-083.0 | 73-858.6 | Water & Sewer Group 605A | 112,503 | (3,145) | 115,648 |
| 73-083.0 | 73-858.7 | Water & Sewer Group 644 | 34,165 | 11,777 | 22,388 |
| 73-083.0 | 73-858.8 | Water Group Job 554 | 75,477 | 452 | 75,025 |
| 73-083.0 | 73-858.9 | Water Group Job 555 | 25,543 | 1,220 | 24,323 |
| 73-083.0 | 73-859.0 | Water Group Job 726 | 156,435 | 79,659 | 76,776 |
| 73-083.0 | 73-859.1 | Water Group Job 727 | 136,632 | 79,597 | 57,035 |
| 73-083.0 | 73-859.2 | Water Group Job 728 | 79,268 | 39,321 | 39,947 |
| 73-083.0 | 73-859.3 | Water Group Job 729 | 76,987 | 41,236 | 35,751 |
| 73-083.0 | 73-859.4 | Water Group Job 730 | 65,382 | 35,977 | 29,405 |
| 73-083.0 | 73-859.5 | Water Group Job 731 | 58,245 | 30,692 | 27,553 |
| 73-083.0 | 73-859.6 | Water Group Job 732 | 64,743 | 32,602 | 32,141 |
| 73-083.0 | 73-859.7 | Water Group Job 733 | 632,733 | 410,041 | 222,692 |
| 73-083.0 | 73-859.8 | Water & Sewer Group Job 677 | 160,801 | 90,513 | 70,288 |
| 73-083.0 | 73-859.9 | Jamacha Road Improvements | 947,147 | 607,704 | 339,443 |
| 73-083.0 | 73-860.0 | Lisbon Street Widening | 1,341 | 75 | 1,266 |
| 73-083.0 | 73-860.1 | 16 IN Cast Repl Natural Hist Museum | 166,906 | 1,210 | 165,696 |
| 73-083.0 | 73-860.2 | East Linda Vista TS Ph 2 | 43,649 | 21,429 | 22,220 |
| 73-083.0 | 73-860.3 | Knoxville/Bianca Accel Project | 807,579 | 520,594 | 286,985 |
| 73-083.0 | 73-860.4 | Water & Sewer GJ 718 | - | (17,914) | 17,914 |
| 73-083.0 | 73-860.5 | Sewer & Water Group 735 | 96,822 | 54,018 | 42,804 |
| 73-083.0 | 73-860.7 | Sewer & Water Group 737 | 1,760 | 334 | 1,426 |
| 73-083.0 | 73-860.8 | Water Group 560 | 142 | 2 | 140 |
| 73-083.0 | 73-861.0 | Water Group 561 | 838 | 106 | 732 |
| 73-083.0 | 73-861.2 | Water Group Job 687 | 193,381 | 29,508 | 163,873 |
| 73-083.0 | 73-861.4 | Water Group 740 | 17,597 | 8,853 | 8,744 |
| 73-083.0 | 73-861.5 | Water Group 741 | 41,810 | 17,247 | 24,563 |
| 73-083.0 | 73-861.6 | Sewer & Water Group 665 | 276 | 189 | 87 |
| 73-083.0 | 73-861.7 | Sewer & Water Group Job 742 | 128,654 | 68,925 | 59,729 |
| 73-083.0 | 73-861.8 | Sewer & Water Group Job 743 | 109,983 | 50,614 | 59,369 |
| 73-083.0 | 73-861.9 | Sewer & Water Group Job 744 | 19,390 | 4,315 | 15,075 |
| 73-083.0 | 73-862.0 | Sewer & Water Group Job 745 | 22,016 | 1,578 | 20,438 |
| 73-083.0 | 73-862.1 | Sewer & Water Group Job 746 | 30,600 | 6,254 | 24,346 |
| 73-083.0 | 73-862.2 | Sewer & Water Group Job 747 | 218,975 | 126,603 | 92,372 |
| 73-083.0 | 73-862.3 | Sewer & Water Group Job 748 | 42,493 | 7,620 | 34,873 |
| 73-083.0 | 73-862.4 | Sewer & Water Group Job 749 | 55,934 | 12,013 | 43,921 |
| 73-083.0 | 73-862.5 | Swr & Wtr Group Job 751 | 23,193 | 11,368 | 11,825 |
| 73-083.0 | 73-862.6 | Sewer & Water GJ 752 | 22,665 | 15,527 | 7,138 |
| 73-083.0 | 73-862.7 | Sewer & Water GJ 753 | 100,745 | 65,889 | 34,856 |
| 73-083.0 | 73-862.8 | Sewer & Water Group Job 754 | 65,132 | 43,693 | 21,439 |
| 73-083.0 | 73-862.9 | Water Group 718A | 34,006 | 21,743 | 12,263 |
| 73-083.0 | 73-863.0 | Sewer & Water GJ 756 | 44,559 | 28,982 | 15,577 |
| 73-083.0 | 73-863.1 | Sewer & Water GJ 758 | 28,319 | 17,443 | 10,876 |
| 73-083.0 | 73-863.2 | Water Group Job 637B | 742,864 | 519,946 | 222,918 |
| 73-083.0 | 73-863.3 | Sewer & Water Group Job 759 | 37,873 | 25,434 | 12,439 |
| 73-083.0 | 73-863.4 | Sewer & Water Group 760 | 111,489 | 70,118 | 41,371 |
| 73-083.0 | 73-863.5 | Sewer & Water GJ 764 | 13,330 | 8,701 | 4,629 |
| 73-083.0 | 73-863.6 | Sewer & Water GJ 765 | 29,831 | 20,009 | 9,822 |
| 73-083.0 | 73-863.7 | Sewer & Water GJ 766 | 57,447 | 39,317 | 18,130 |
| 73-083.0 | 73-863.8 | Sewer & Water GJ 761 | 50,253 | 34,826 | 15,427 |
| 73-083.0 | 73-863.9 | Sewer & Water GJ 763 | 39,102 | 27,182 | 11,920 |
| 73-083.0 | 73-864.0 | Sewer & Water Group Job 685 | 46,056 | 27,317 | 18,739 |
| 73-083.0 | 73-864.1 | Sewer & Water Group 707 | 140,928 | 98,165 | 42,763 |
| 73-083.0 | 73-864.2 | Sewer & Water GJ 768 | 198,881 | 132,004 | 66,877 |
| 73-083.0 | 73-864.3 | Sewer & Water GJ 689 | 41,104 | 21,783 | 19,321 |

| Bond Approved Project ID | Project ID | Description | CIP Funded by | | |
|--------------------------------|------------|--|-----------------------|--------------------|--------------------|
| | | | Total CIP | Bond Proceeds | Other Sources |
| 73-083.0 | 73-864.4 | Sewer & Water GJ 764A | 35,172 | 23,636 | 11,536 |
| 73-083.0 | 73-864.5 | Sewer & Water GJ 773 | 42,632 | 29,843 | 12,789 |
| 73-083.0 | 73-864.6 | Sewer & Water GJ 789 | 31,247 | 32,026 | (779) |
| 73-083.0 | 73-864.7 | 43rd St & Nat. Ave Align | 35,557 | 24,889 | 10,668 |
| 73-083.0 | 73-864.8 | Water Group 772 | 39,221 | 25,534 | 13,687 |
| 73-083.0 | 73-864.9 | Sewer & Water Grp 778 | 63,400 | 66 | 63,334 |
| 73-083.0 | 73-865.0 | Sewer & Water Grp 785 | 32,497 | 22,750 | 9,747 |
| 73-083.0 | 73-865.1 | Sewer & Water Grp 776 | 65,962 | 44,530 | 21,432 |
| 73-083.0 | 73-865.2 | Sewer & Water GJ 787 | 3,763 | 2,634 | 1,129 |
| 73-083.0 | 73-865.3 | Sewer & Water GJ 774 | 27,780 | 19,447 | 8,333 |
| 73-083.0 | 73-865.4 | Sewer & Water GJ 775 | 28,667 | 20,067 | 8,600 |
| 73-083.0 | 73-865.5 | Sewer & Water GJ 780 | 2,242 | 1,548 | 694 |
| 73-083.0 | 73-865.6 | Sewer & Water GJ 781 | 17,821 | 3,272 | 14,549 |
| 73-083.0 | 73-865.7 | Sewer & Water GJ 782 | 24,992 | 16,894 | 8,098 |
| 73-083.0 | 73-865.9 | Water Group 807 | 7,493 | 2,767 | 4,726 |
| 73-083.0 | 73-866.0 | Manning Canyon | 67,947 | 41,183 | 26,764 |
| 73-083.0 | 73-866.1 | Annual Allocation - Pressure Reduction Upgrade | 3,828 | 2,445 | 1,383 |
| 73-083.0 | 73-866.2 | Sewer & Water GP 779 | 11,236 | 7,864 | 3,372 |
| 73-083.0 | 73-866.3 | Sewer & Water GP 821 | 3,813 | 2,669 | 1,144 |
| 73-083.0 | 73-866.4 | Sewer & Water Group 770 | 6,762 | 3,594 | 3,168 |
| 73-083.0 | 73-866.5 | Sewer & Water Group 792 | 17,466 | 12,225 | 5,241 |
| 73-083.0 | 73-866.7 | Water Main Replacement Group 464A | 35,089 | 24,561 | 10,528 |
| 73-083.0 | 73-866.8 | Water Group Job 822 | 98,908 | 62,106 | 36,802 |
| 73-083.0 | 73-866.9 | Sewer & Water GP 787 Canyon | 1,041 | 729 | 312 |
| 73-083.0 | 73-867.0 | Sewer & Water GP 799 | 238 | 167 | 71 |
| 73-083.0 | 73-867.1 | Annual Allocation - Pressure Reduction Upgrade | 546 | 382 | 164 |
| 73-083.0 | 73-867.2 | Annual Allocation - Pressure Reduction Upgrade | 1,129 | 790 | 339 |
| 73-083.0 | 73-867.3 | Sewer & Water Group 788 | 16,849 | 11,177 | 5,672 |
| 73-083.0 | 73-867.4 | Annual Allocation - Pressure Reduction Upgrade | 84,112 | 50,331 | 33,781 |
| 73-083.0 | 73-867.5 | Water & Sewer Group 814 | 1,524 | 536 | 988 |
| 73-083.0 | 73-867.6 | La Jolla Group Job 540 | 78,196 | 45,120 | 33,076 |
| 73-083.0 | 73-867.7 | La Jolla Group Job 540 | 8,174 | 372 | 7,802 |
| 73-083.0 | 73-867.8 | La Jolla Group Job 540 | 13,946 | 9,763 | 4,183 |
| 74-925.0 | 74-975.0 | Damn & Reservoirs: Water Level Sensors | 1,691,627 | 24 | 1,691,603 |
| 74-925.0 | 74-975.2 | Lower Otay Bridge/Dam | 89,176 | 7,074 | 82,102 |
| 74-925.0 | 74-975.3 | Lake Southernland Bridge/Damn | 273,874 | 214 | 273,660 |
| 74-925.0 | 74-975.4 | Raw Wtr Pipelines-Valve Mtr Rpl | 434,536 | 302,563 | 131,973 |
| 73-277.0 | 75-910.5 | Catalina Standpipe Navy Pump Sta. A42 | 280,345 | 864 | 279,481 |
| Total | | | <u>\$ 728,035,071</u> | <u>198,090,352</u> | <u>529,944,719</u> |

CITY OF SAN DIEGO

Independent Accountant's Report on
Agreed-Upon Procedures
Applied to Use of Wastewater Fund
Bond Proceeds



Mayer Hoffman McCann P.C.
An Independent CPA Firm
Conrad Government Services Division
2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

Office of the Mayor
City of San Diego

Independent Accountant's Report on Agreed-Upon Procedures
Applied to Use of Wastewater Fund Bond Proceeds

We have applied the procedures enumerated below to the City of San Diego's Wastewater Fund bond proceeds. These procedures, which were agreed to by the City of San Diego were performed solely to assist the City in determining the allowability of the uses of bond proceeds.

This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results of those procedures were as follows:

ANALYSIS OF SOURCES AND USES OF DEBT PROCEEDS
SEWER REVENUE BONDS

1. We reviewed the Indenture of the \$152,000,000 Public Facilities Financing Authority of the City of San Diego Non-Transferable Subordinated Sewer Revenue Bonds, Series 2004. We compared the bond proceeds per the Indenture to a detailed listing of capital projects funded by the bond proceeds (Project Status Report).

Results: The bond proceeds per the indenture were \$152,000,000. The expended bond proceeds per the Project Status Report were \$152,219,032. The expended amounts exceeded the original proceeds of the bonds due to additional resources generated through investment earnings on unspent bond proceeds.

2. We agreed the total expenditures per the Project Status Report (\$152,219,032) to the cumulative expenditures recorded in the Public Facilities Financing Authority construction fund.

Results: No exceptions were noted.

3. We reviewed the Master and Supplemental Installment Purchase Agreements to identify the listing of bond approved capital projects. We also reviewed the Master Installment Purchase Agreement to identify the procedures for modifying the listing of capital projects.

Results: Exhibit A of the Installment Purchase Agreement defines the components of the bond funded project as follows:

The 2004 components consist of certain capital improvements to (1) the City's Metropolitan System including improvements to certain interceptor lines, the Point Loma Treatment Facility, North City System, South Bay System, Wastewater Management Computer Network (COMNET) and the City's wastewater laboratory facilities and (2) the City's Municipal System including replacement and upgrading of certain pipelines, sewer mains, trunk sewer lines and pump stations.

The Master Installment Purchase Agreement, dated September 1, 1993, describes the procedures for changing projects as follows:

From time to time and at any time, the City may modify or amend the description of the project, to eliminate any part thereof and/or substitute another project or projects, all without obtaining any consent, by filing an amended Exhibit A with the Authority and the Trustee; provided however, that no such amendment shall substitute a project or projects which are not to be owned by the Sewer Revenue Fund.

The City has interpreted Exhibit A to include all capital projects listed in the City Council approved CIP budget for the Sewer Revenue Fund and all capital projects funded with the Muni and Metro interim financing proceeds. Accordingly, the City did not file an amended Exhibit A with the Corporation and the Trustee. The bond documents did not specifically provide for this interpretation of the substitution requirement. We recommend that future debt issuances explicitly acknowledge the acceptability of this interpretation in the list of authorized projects for that debt issue..

4. We obtained the Project Status Report for the bonds that lists actual expenditures, by project, funded with bond proceeds. We compared the list of bond approved projects to the list of actual expenditures by project (*Schedule 1*). We differentiated between those projects originally identified as eligible for debt financing versus (Muni and Metro 2004 capital projects) those projects included in the annual CIP budget for the Sewer Fund, projects included in amendments to the annual CIP budget, and other projects. We also identified the portion of each project's expenditures that were "debt financed" versus the portion that was "financed with other funding sources."

Results: Schedule 1 provides the above detail by project. The following is a summary of Schedule 1:

| | | |
|------------------------------|----------------------|----------------|
| Muni and Metro 2004 projects | \$ 70,773,464 | 46.49% |
| Annual CIP budget projects | 81,111,239 | 53.29% |
| Other expenditures | <u>334,329</u> | <u>.22%</u> |
| Total | <u>\$152,219,032</u> | <u>100.00%</u> |

The "other expenditures" of \$334,329 noted on the previous page are for legal fees associated with the abandoned issuance of the 2003 Sewer Bonds. The City obtained documentation from the 2004 Sewer Bonds' council, Hawkins Delafield & Wood, LLP, stating that since the 2004 bonds were being issued for the same purpose as the 2003 bonds, the costs associated with the 2003 bonds are eligible for reimbursement by the 2004 bonds.

5. We selected a sample of 10 projects (accounting for 33% of total expenditures) for additional testing. The sample included all projects with expenditures of over \$5 million and four projects selected judgmentally. From the sample of 10 projects, we selected 37 transactions (accounting for over \$9 million and 6% of total expenditures) and performed the following procedures:
 - a. We determined that the project description noted on the vendor invoice agreed to the project description noted on the Project Status Report.
 - b. We determined that the amount of bond expenditures per the Project Status Report agreed to the amount the City paid to the vendor.
 - c. We determined that the documentation was sufficient to support the charge to the bond.

Results: One charge totaling \$132,908 was a journal voucher correcting a misposting to another project. The journal voucher was supported by an e-mail from an Associate Management Analyst.

Recommendation: We recommend that the individuals initiating correcting journal entries provide documentation supporting the amount of the adjustment. The documentation should be attached to the journal voucher. The documentation for transactions posted to the general ledger should stand on its own without further explanation from staff.

* * * * *

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the procedures referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the City of San Diego, California and is not intended to be and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Mayer Hoffman Melton P.C.

**CITY OF SAN DIEGO
Wastewater CIP Listing**

| Subproject | | Total CIP | CIP Funded by | | |
|---|---|------------|---------------|---------------|--|
| Project No. | No. Description | | Bond Proceeds | Other Sources | |
| Projects listed on Muni and Metro financing document: | | | | | |
| 41-927.9 | Pump Station 64 Odor Scrubber Rehabilitation | 29,702 | - | 29,702 | |
| 41-927.8 | Standby Electrical Power system | 296,799 | 144,006 | 152,793 | |
| 41-928.1 | Value Engineering For Pump Station 64, 65, Penasquitos & East Mission Gorge | 80,004 | 13,246 | 66,758 | |
| 41-928.2 | Pump Station 65 Cathodic Protection | 251,325 | - | 251,325 | |
| 41-928.3 | Pump Station 65 Auto Transfer Switch | 322,821 | 155,091 | 167,730 | |
| 41-928.4 | Removal Second Stage Pump At Penasquitos | 262,161 | 28,320 | 233,841 | |
| 41-928.5 | Screens Design Replacement PS 64, 65, Penasquitos | 117,187 | 64,477 | 52,710 | |
| 41-928.6 | Pump Station 64 Large Valve | 36,838 | - | 36,838 | |
| 41-928.7 | Pump Station 64 Flow Meter Replacement Project | 78,418 | - | 78,418 | |
| 41-928.8 | East Mission Gorge Electrical Room Cooling | 85,436 | - | 85,436 | |
| 46-139.2 | Home Avenue T. S. Contract III | 3,632,304 | 14,445 | 3,617,859 | |
| 46-162.1 | East Linda Vista Trunk Sewer Phase 2 | 2,798,133 | 2,264,299 | 533,834 | |
| 46-196.1 | Maintenance Facilities Relocation: MOC 1 Office Improvements | 2,867,194 | 258,060 | 2,609,134 | |
| 46-196.3 | Maintenance Facilities Relocation: MOC 6 WWC Warehouse | 115,723 | 31,983 | 83,740 | |
| 40-910.2 | Chollas Valley Trunk Sewer* | 7,616,658 | 5,687,546 | 1,929,112 | |
| 40-920.4 | East Mission Gorge Trunk Sewer Rehabilitation* | 12,890,910 | 16,938 | 12,873,972 | |
| 40-927.0 | Centre City sewer Improvements* | 2,327,745 | - | 2,327,745 | |
| 40-928.0 | South Pacific Highway Trunk Sewer* | 3,672,612 | 1,859,587 | 1,813,025 | |
| 40-930.0 | Otay Mesa Trunk Sewer* | 11,701,289 | 5,244,545 | 6,456,744 | |
| 40-931.0 | South Mission Valley Trunk Sewer* | 1,426,304 | - | 1,426,304 | |
| 40-932.0 | Camden Redevelopment | 71,127 | - | 71,127 | |
| 41-929.0 | Pump Station Upgrades* | 2,173,745 | - | 2,173,745 | |
| 45-934.0 | Vactor Cleanings Disposal Site | 392,511 | - | 392,511 | |
| 45-936.0 | Sewer System Canyon Access* | 3,480,898 | - | 3,480,898 | |
| 45-938.0 | Beach Area Low Flow Storm Drain Diversion | 2,251,176 | - | 2,251,176 | |
| 45-946.0 | South Bay Reclaimed Water Storage Tank* | 1,423,127 | 283,682 | 1,139,445 | |
| 46-117.0 | Pump Station 65 - Expansion and Force Main* | 22,936,927 | 992 | 22,935,935 | |
| 46-120.0 | Peasquitos Trunk Sewer Relief* | 57,672,440 | - | 57,672,440 | |
| 46-122.0 | Carmel Valley Trunk Sewer Replacement - Sewer Pump Station 65* | 8,295,608 | - | 8,295,608 | |
| 46-136.0 | Carmel Valley Trunk Sewer E/O I-5* | 8,290,397 | - | 8,290,397 | |
| 46-138.0 | Highland Park Estates Trunk Sewer - Phase II* | 1,305,399 | - | 1,305,399 | |
| 46-139.0 | Home Avenue Trunk Sewer - Contracts 1, 2 And 3* | 2,144,069 | - | 2,144,069 | |
| 46-142.0 | Sewer Pump Station 24* | 5,333,176 | 295,929 | 5,037,247 | |
| 46-168.0 | Telemetry Control Systems - SCADA* | 8,528,858 | 1,597,572 | 6,931,286 | |
| 46-188.0 | Pump Station 64 - Improvement Project* Formerly Pump Station 64 - HPO Injection | 1,719,301 | - | 1,719,301 | |
| 46-191.0 | Brine Management Force Main and Pump Station | 967,553 | - | 967,553 | |
| 46-194.2 | La Jolla/Pacific Beach Trunk Sewer - Chelsea Street Relocation* | 8,260,042 | 5,836,890 | 2,423,152 | |
| 46-195.0 | Belt Street Trunk Sewer* | 891,583 | - | 891,583 | |
| 46-195.8 | Miramar Road Trunk Sewer* | 702,181 | 179,779 | 522,402 | |
| 46-196.6 | Balboa Trunk Sewer* | 563,479 | 277,845 | 285,634 | |
| 46-196.9 | Montezuma Trunk Sewer* | 566,418 | - | 566,418 | |
| 46-197.0 | Sorrento Valley Trunk Sewer Relocation* | 10,972,214 | 614,095 | 10,358,119 | |
| 46-197.6 | USIU Trunk Sewer* | 1,071,202 | 825,045 | 246,157 | |
| 46-197.9 | Lake Murray Trunk Sewer In Canyon* | 798,732 | 628,123 | 170,609 | |
| 46-198.0 | UCSD Trunk Sewer* | 2,377,221 | 34,470 | 2,342,751 | |
| 46-199.0 | West Linda Vista Trunk Sewer* | 1,558,945 | - | 1,558,945 | |
| 46-200.0 | Sewer Pump Station 30A Relocation* | 9,045,821 | 2,832,548 | 6,213,273 | |
| 46-205.0 | Harbor Drive Trunk Sewer Replacement* | 622,510 | 311,302 | 311,208 | |
| 46-208.0 | San Pasqual Effluent Disposal | 857 | - | 857 | |
| 46-506.0 | Pipeline Rehabilitation In The R.O.W. And Easments - Phase A* | 17,299,996 | 14,175,688 | 3,124,308 | |
| 46-601.6 | Sewer Pump Station 45* | 12,340,027 | 7,569,095 | 4,770,932 | |
| 46-602.6 | Sewer Pump Station 79* | 1,265,056 | - | 1,265,056 | |
| 41-926.1 | Pump Station 2 Odor Control System | 357,694 | 70,919 | 286,775 | |
| 41-926.2 | P.S. 1 Liquid Rheostats | 314,358 | 161,558 | 152,800 | |
| 41-926.3 | P.S. 2 Liquid Rheostats | 298,202 | 144,334 | 153,868 | |
| 41-926.4 | Pump Station 2 Parking Lot Construction | 60,646 | - | 60,646 | |
| 41-926.5 | P. S. 1 Bleach Tank Replacement | 32,722 | - | 32,722 | |

| | | | | |
|----------|---|-------------|-----------|-------------|
| 41-926.6 | P. S. 1 & 2 Sump Pumps/Well Transfer Pumps & Venturi Replacement | 1,256,916 | 1,000,062 | 256,854 |
| 41-926.7 | Design of Pump Station 1 Sluice Gates | 707,836 | 614,072 | 93,764 |
| 41-926.9 | P. S. 2 Heat Exchangers Modifications | 432,545 | 24,545 | 408,000 |
| 41-929.1 | P. S. 1 & 2 New Pumps Actuation System Design | 196,794 | 35,748 | 161,046 |
| 41-929.2 | P. S. 1 & 2 Power Reliability Investigation & Design | 570,703 | 269,863 | 300,840 |
| 41-929.5 | P. S. Liquid Nat Gas Pre-Design | 65,285 | - | 65,285 |
| 41-929.6 | P. S. Security Fence and Gate | 171,583 | 25,766 | 145,817 |
| 41-929.7 | P. S. 1 & 2 Design And Installation Level Indicators | 65,627 | 14,223 | 51,404 |
| 41-929.8 | P. S. 1 & 2 Screens Design & Installation | 118,300 | 99,356 | 18,944 |
| 41-929.9 | Screening Room Liner Improv | 30,470 | 13,564 | 16,906 |
| 41-930.0 | P. S. 1 & 2 Fiber Optic Installation | 961,026 | 742,722 | 218,304 |
| 41-930.1 | P. S. 2 Concrete Work | 14,102 | 11,449 | 2,653 |
| 41-930.3 | P. S. 2 Restroom Relocation | 115,520 | - | 115,520 |
| 42-913.1 | MBC Plant Imp. Centrifuges Digesters | 4,587,513 | 500 | 4,587,013 |
| 42-913.3 | MBC Plant Improvements Centrifuges Digesters | 61,773 | - | 61,773 |
| 42-913.4 | MBC Access Road | 80,706 | 8,388 | 72,318 |
| 42-913.5 | MBC Air Release Valve | 10,149 | - | 10,149 |
| 42-913.6 | MBC Access To Valves In | 15,500 | - | 15,500 |
| 42-913.7 | MBC Sump Pumps | 70,050 | 2,921 | 67,129 |
| 42-913.8 | MBC Digester Viewport REM | 24,906 | 1,035 | 23,871 |
| 42-913.9 | MBC Duct Cleaning Access | 39,971 | - | 39,971 |
| 42-914.2 | MBC Boiler Gas Meter Inst. | 5,188 | - | 5,188 |
| 42-914.4 | MBC Wash System For Militronic | 569 | - | 569 |
| 42-914.5 | MBC Design Modification | 79,197 | 22,264 | 56,933 |
| 42-914.6 | MBC Clarifier Access Station | 10,649 | 4,545 | 6,104 |
| 42-914.7 | Storm Drain | 407,006 | 211,891 | 195,115 |
| 42-914.8 | MBC Grit Teacups Access Platform | 942,370 | 56,459 | 885,911 |
| 42-914.9 | MBC Odor Control Modifications | 215,082 | - | 215,082 |
| 42-915.1 | MBC TC Wetwell Mixer | 1,307 | - | 1,307 |
| 42-915.2 | MBC Foul Air Duct U-Trap | 273,046 | 182,067 | 90,979 |
| 42-915.3 | MBC Heat Exchanger | 200 | - | 200 |
| 42-915.4 | MBC Misc. Concrete Work | 32,171 | - | 32,171 |
| 42-915.7 | MBC Reclaimed Water To Digester Tsfr Pumps | 130,542 | 93,172 | 37,370 |
| 42-915.8 | MBC RW Centrate Cathodic Protection | 17,911 | 16,570 | 1,341 |
| 42-915.9 | MBC Dewatering Transfer Pumps | 733,417 | 1,752 | 731,665 |
| 40-911.1 | South Bay Pump Station and Conveyance System- Phase I | 1,003,649 | 6,456 | 997,193 |
| 40-911.3 | South Bay Water Reclamation Sewer and Pump Station* <i>Formerly South Bay Water Reclama</i> | 31,135,912 | 45,054 | 31,090,858 |
| 40-924.0 | Metropolitan Operations Center MOC II Buildout* | 8,140,451 | 594,246 | 7,546,205 |
| 41-924.0 | Otay River Pump Station* | 12,266,990 | 896,808 | 11,370,182 |
| 41-925.0 | Fourth Sludge Pump and Other Modifications* | 4,938,289 | 724,055 | 4,214,234 |
| 42-910.1 | North City Reclamation Plant* | 205,494,493 | 178,461 | 205,316,032 |
| 42-910.6 | South Bay Water Reclamation Plant* <i>Formerly South Bay Water Recalman and Secondary Pla</i> | 143,119,157 | 1,398,388 | 141,720,769 |
| 42-911.3 | North City Raw Sludge and Water Pipelines* | 19,683,829 | 10,865 | 19,672,964 |
| 42-911.4 | Metro Biosolids Center* | 254,088,040 | 71,616 | 254,016,424 |
| 42-915.0 | NCWRP Permanent Demineralization Facility* | 3,664,194 | 422,753 | 3,241,441 |
| 45-920.0 | Wastewater Operations Management Network (COMNET)* <i>Formerly Metro System Control</i> | 58,677,657 | 5,159,212 | 53,518,445 |
| 45-960.0 | Point Loma - South Access Road Protection Project* | 238,153 | 58,034 | 180,119 |
| 46-055.0 | FIRP Pump Station* <i>Formerly Fiesta Island Replacement Project</i> | 46,594,010 | 5,796 | 46,588,214 |
| 46-170.0 | Point Loma - Digester Facility Upgrade and Expansion* | 72,855,330 | 351,356 | 72,503,974 |
| 46-218.0 | Point Loma - Digesters S1 & S2 Upgrades* | 14,800,481 | 1,404,608 | 13,395,873 |
| 46-192.1 | Point Loma Concrete Restorations Sed. Basins 9-12 | 1,020,254 | 134,676 | 885,578 |
| 46-192.4 | Point Loma HVAC Upgrades Air Conditioning | 373,417 | 104,399 | 269,018 |
| 46-192.5 | Point Loma Odor Control Scrubber Fans | 242,814 | 59,175 | 183,639 |
| 46-192.7 | Point Loma 84-inch Penstock Improvement | 184,549 | 42,246 | 142,303 |
| 46-192.8 | Submersible Actuator Replacement | 2,420 | 4 | 2,416 |
| 46-192.9 | Gas utilization Facility I&C Startup | 598,439 | 392,630 | 205,809 |
| 46-193.1 | Bin Storage and Truck Wash | 109,750 | 104,558 | 5,192 |
| 46-193.2 | Hydro Road Storm Water Diversion | 36,982 | 32,520 | 4,462 |
| 46-193.4 | FIRP Phase B, C, & D Cathodic Protection | 519,532 | 175,966 | 343,566 |
| 46-193.7 | Point Loma NEOC Slide Gate | 142,672 | 76,823 | 65,849 |
| 46-193.8 | Point Loma NEOC Slide Gates & Hydro P. | 25,420 | 22,353 | 3,067 |
| 46-193.9 | Point Loma Lower Hydro Road Piping | 59,298 | 49,362 | 9,936 |
| 46-600.6 | Pump Station 1 Electrical Upgrade | 155,186 | 143 | 155,043 |
| 40-922.0 | MOC Central Repair Facility* | 6,099,789 | 192,365 | 5,907,424 |
| 45-911.0 | South Metro Rehabilitation* | 10,704,430 | 482 | 10,703,948 |

| | | | | |
|----------|--|------------|-----------|------------|
| 45-937.0 | Point Loma Site Improvements* | 403,321 | 1,468 | 401,853 |
| 45-941.0 | South Metro Downtown Tunnel Rehabilitation* | 6,777,568 | 1,864,977 | 4,912,591 |
| 45-942.0 | Metropolitan Operations Center Expansion Phase II* | 4,406,246 | 16,719 | 4,389,527 |
| 45-943.0 | Point Loma Grit Processing Improvements* | 2,601,090 | 245,154 | 2,355,936 |
| 46-104.0 | North Metro Interceptor* | 64,379,512 | 533,889 | 63,845,623 |
| 46-110.0 | Point Loma - Scum Removal System* | 18,010,752 | 9,000 | 18,001,752 |
| 46-175.0 | Point Loma - Headworks, Odor Control and Grit Processing Facilities* | 19,680,607 | 28,526 | 19,652,081 |
| 46-177.0 | Point Loma - Sedimentation Basins 11 and 12+ (This project has been completed) | 22,936,927 | | 22,936,927 |
| 46-179.0 | Point Loma - Power Generation and Distribution Upgrade* | 25,217,175 | 237,307 | 24,979,868 |
| 46-182.0 | Point Loma Chemical Feed Systems Upgrade* | 6,061,874 | 45,671 | 6,016,203 |

Projects listed on CIP Budget:

| | | | | |
|----------|--|-----------|-----------|-----------|
| 41-927.3 | Annual Allocation - Pump Stations 64, 65, Pensquitos and Mission Gorge | 172,095 | 118,667 | 53,428 |
| 41-927.6 | Annual Allocation - Pump Stations 64, 65, Pensquitos and Mission Gorge | 401,261 | 57,078 | 344,183 |
| 46-194.3 | Annual Allocation - Trunk Sewer Rehabilitaitions | 788,529 | 24,066 | 764,463 |
| 46-194.7 | Annual Allocation - Trunk Sewer Rehabilitaitions | 1,401,645 | 74,689 | 1,326,956 |
| 46-195.5 | Belt Street Trunk Sewer | 439,384 | 96,641 | 342,743 |
| 46-195.7 | Belt Street Trunk Sewer | 2,546,675 | 1,509,093 | 1,037,582 |
| 46-195.9 | Belt Street Trunk Sewer | 327,678 | 24,212 | 303,466 |
| 46-601.0 | Pump Station #45 | 7,660,249 | 726,332 | 6,933,917 |
| 46-601.3 | Pump Station #45 | 5,118,582 | 2,195,455 | 2,923,127 |
| 46-601.8 | Pump Station #45 | 2,507,211 | 905,789 | 1,601,422 |
| 46-601.9 | Pump Station #45 | 4,168,383 | 2,220,561 | 1,947,822 |
| 41-928.9 | Pump Stations #1 and #2 Large Valve Replacement | 65,250 | 62,511 | 2,739 |
| 46-602.0 | Sewer Pump Station 79 | 1,110,654 | 286,739 | 823,915 |
| 46-602.1 | Sewer Pump Station 79 | 2,282,261 | 1,535,666 | 746,595 |
| 46-602.2 | Sewer Pump Station 79 | 1,835,271 | 153,806 | 1,681,465 |
| 46-602.3 | Sewer Pump Station 79 | 1,317,326 | 769,093 | 548,233 |
| 46-602.4 | Sewer Pump Station 79 | 914,018 | 513,742 | 400,276 |
| 46-602.5 | Sewer Pump Station 79 | 1,177,448 | 79,524 | 1,097,924 |
| 46-602.7 | Sewer Pump Station 79 | 3,895,417 | 2,416,202 | 1,479,215 |
| 46-602.8 | Sewer Pump Station 79 | 1,074,427 | 750,376 | 324,051 |
| 46-602.9 | Sewer Pump Station 79 | 907,952 | 528,248 | 379,704 |
| 46-197.5 | Sorrento Valley Trunk Sewer Relocation | 342,225 | 40,091 | 302,134 |
| 40-911.4 | South Bay Pump Station and Conveyance System - Phase I | 16,383 | 1,405 | 14,978 |
| 40-928.1 | South Pacific Highway Trunk Sewer | 2,642,157 | 2,299,685 | 342,472 |

Projects listed on CIP Budget (Project ID/Subproject ID):

| | | | | | |
|----------|----------|--|-----------|-----------|-----------|
| 41-926.0 | 41-930.2 | PS #1 Lighting Upgrade | 113,773 | 23,377 | 90,396 |
| 41-927.0 | 41-935.1 | PS 64 Bleach Tank Replacement | 85,841 | 41,455 | 44,386 |
| 42-911.3 | 42-911.5 | North City Raw SL & Water Pipelines Reveg Sublet | 4,935 | 4,935 | - |
| 42-911.3 | 42-911.6 | Northern Sludge Processing Facility PH II | 44,420 | 27,461 | 16,959 |
| 44-001.0 | 44-105.0 | Sewer Group 90 | 2,129,321 | 8,676 | 2,120,645 |
| 44-001.0 | 44-107.9 | Sewer Group 653 | 1,671,366 | 1,312,530 | 358,836 |
| 44-001.0 | 44-108.2 | Sewer Repl Group 649-Kensington | 263,673 | 19,355 | 244,318 |
| 44-001.0 | 44-108.4 | Sewer Repl Group 651 Kensington | 3,300,596 | 2,465,145 | 835,451 |
| 44-001.0 | 44-108.5 | Sewer Repl Group 652 Kensington | 3,634,544 | 404,824 | 3,229,720 |
| 44-001.0 | 44-109.6 | Sewer Repl Group 663-Mission Hills | 3,384,128 | 368,414 | 3,015,714 |
| 44-001.0 | 44-109.7 | Sewer Repl Group 664-Mission Hills | 300,441 | 18,608 | 281,833 |
| 44-001.0 | 44-109.8 | Sewer Repl Group 665 | 458,620 | 8,071 | 450,549 |
| 44-001.0 | 44-210.1 | Sewer Group 667 Ocean Beach - So Mstr Repl | 2,040,045 | 712,312 | 1,327,733 |
| 44-001.0 | 44-210.2 | Sewer Group 668 Ocean Beach - So Mstr Repl | 215,365 | 15,847 | 199,518 |
| 44-001.0 | 44-210.5 | Sewer Group 670 Ocean Beach - So Mstr Repl | 1,661,286 | 636,328 | 1,024,958 |
| 44-001.0 | 44-210.6 | Sewer Group 633 Main Repl | 2,797,799 | 876,749 | 1,921,050 |
| 44-001.0 | 44-211.2 | Sewer Group 672 Main Repl | 1,568,182 | 859,170 | 709,012 |
| 44-001.0 | 44-211.3 | Sewer Group 673 Main Repl | 2,067,260 | 207,824 | 1,859,436 |
| 44-001.0 | 44-212.9 | Sewer Group Job 682 | 719,508 | 83,900 | 635,608 |
| 44-001.0 | 44-213.0 | Sewer Group Job 677 | 1,405,158 | 282,216 | 1,122,942 |
| 44-001.0 | 44-213.2 | Sewer Group Job 676 | 341,805 | 52,198 | 289,607 |
| 44-001.0 | 44-213.5 | Sewer Group Job 681 | 3,467,406 | 148,622 | 3,318,784 |
| 44-001.0 | 44-213.6 | Sewer Group Job 680 | 4,492,422 | 2,963,417 | 1,529,005 |
| 44-001.0 | 44-213.9 | Cather Ave/Florey St/Florey Ct Rerouting | 1,176,421 | 19,073 | 1,157,348 |
| 44-001.0 | 44-214.2 | Sewer Group Job 627B | 932,505 | 509,310 | 423,195 |
| 44-001.0 | 44-214.9 | City Heights: Grp 683 | 3,478,780 | 1,749,254 | 1,729,526 |

| | | | | | |
|----------|----------|--------------------------------|-----------|-----------|-----------|
| 44-001.0 | 44-215.0 | City Heights: Grp 684 | 696,279 | 10,904 | 685,375 |
| 44-001.0 | 44-215.1 | City Heights: Grp 685 | 540,997 | 7,228 | 533,769 |
| 44-001.0 | 44-215.2 | City Heights: Grp 686 | 2,820,534 | 344,706 | 2,475,828 |
| 44-001.0 | 44-215.4 | University Heights-GJ 687 | 792,915 | 7,295 | 785,620 |
| 44-001.0 | 44-215.5 | University Heights-GJ 690 | 3,225,521 | 1,167,352 | 2,058,169 |
| 44-001.0 | 44-215.6 | University Heights-GJ 688 | 1,654,395 | 1,303,600 | 350,795 |
| 44-001.0 | 44-215.7 | University Heights-GJ 689 | 606,007 | 31,091 | 574,916 |
| 44-001.0 | 44-215.8 | Del Rey Street 3.0" Sewer Main | 1,851,022 | 219,226 | 1,631,796 |
| 44-001.0 | 44-217.1 | Sewer Group 634 B | 2,771,926 | 1,787,553 | 984,373 |
| 44-001.0 | 44-217.2 | Sewer Group 683 A | 452,329 | 20,564 | 431,765 |
| 44-001.0 | 44-217.3 | Sewer Group 623 B | 3,966,979 | 3,101,543 | 865,436 |
| 44-001.0 | 44-217.8 | Sewer Group Job 726 | 296,740 | 66,634 | 230,106 |
| 44-001.0 | 44-217.9 | Sewer Group Job 727 | 252,186 | 78,478 | 173,708 |
| 44-001.0 | 44-218.0 | Sewer Group Job 728 | 296,509 | 69,587 | 226,922 |
| 44-001.0 | 44-218.1 | Sewer Group Job 729 | 286,422 | 38,990 | 247,432 |
| 44-001.0 | 44-218.3 | Sewer Group 731 | 207,636 | 15,858 | 191,778 |
| 44-001.0 | 44-218.6 | La Jolla Shores Dr/Ardath Road | 2,268,682 | 1,027,134 | 1,241,548 |
| 44-001.0 | 44-218.7 | Group Job 545 | 1,697,805 | 27,792 | 1,670,013 |
| 44-001.0 | 44-218.9 | Sewer & Water Group Job 544 | 159,216 | 5,005 | 154,211 |
| 44-001.0 | 44-219.0 | Sewer Group 735 | 285,605 | 78,686 | 206,919 |
| 44-001.0 | 44-219.1 | Sewer Group 737 | 2,070,830 | 301,531 | 1,769,299 |
| 44-001.0 | 44-219.2 | Sewer Group 697 A | 119,340 | 3,446 | 115,894 |
| 44-001.0 | 44-219.4 | Group Job 740 | 219,013 | 19,459 | 199,554 |
| 44-001.0 | 44-219.6 | Group Job 741 | 333,333 | 42,672 | 290,661 |
| 44-001.0 | 44-219.8 | Sewer Group 742 | 922,220 | 218,720 | 703,500 |
| 44-001.0 | 44-219.9 | Sewer & Water Group 743 | 521,988 | 200,544 | 321,444 |
| 44-001.0 | 44-220.0 | Sewer Group 744 | 4,203,261 | 1,311,062 | 2,892,199 |
| 44-001.0 | 44-220.1 | Sewer Group 745 | 678,228 | 404,232 | 273,996 |
| 44-001.0 | 44-220.2 | Sewer Group 746 | 2,471,235 | 189,288 | 2,281,947 |
| 44-001.0 | 44-220.3 | Sewer & Water GJ 747 | 642,485 | 184,061 | 458,424 |
| 44-001.0 | 44-220.4 | Sewer Group 748 | 601,636 | 314,826 | 286,810 |
| 44-001.0 | 44-220.5 | Sewer Group 749 | 1,379,484 | 224,186 | 1,155,298 |
| 44-001.0 | 44-220.6 | Sewer Group Job 687A | 157,868 | 7,088 | 150,780 |
| 44-001.0 | 44-220.7 | Sewer Group Job 738 | 192,389 | 15,851 | 176,538 |
| 44-001.0 | 44-220.9 | Sewer Repl GJ 750 | 450,131 | 132,647 | 317,484 |
| 44-001.0 | 44-221.0 | Sewer Repl GJ 751 | 388,499 | 157,475 | 231,024 |
| 44-001.0 | 44-221.1 | Water & Sewer Repl 752 | 417,443 | 36,144 | 381,299 |
| 44-001.0 | 44-221.2 | Water & Sewer GJ 753 | 264,491 | 113,411 | 151,080 |
| 44-001.0 | 44-221.3 | Water & Sewer GJ 754 | 315,570 | 131,064 | 184,506 |
| 44-001.0 | 44-221.4 | Sewer & Water GJ 756 | 263,985 | 3,793 | 260,192 |
| 44-001.0 | 44-221.5 | Sewer Repl GJ 757 | 209,576 | 11,683 | 197,893 |
| 44-001.0 | 44-221.6 | Sewer & Water GJ 758 | 173,541 | 29,535 | 144,006 |
| 44-001.0 | 44-221.9 | Sewer & Water Group Job 760 | 196,008 | 10,102 | 185,906 |
| 44-001.0 | 44-222.1 | Sewer & Water Group Job 764 | 74,265 | 37,774 | 36,491 |
| 44-001.0 | 44-222.2 | Sewer & Water Group Job 765 | 175,662 | 66,755 | 108,907 |
| 44-001.0 | 44-222.3 | Sewer Group Job 767 | 262,334 | 111,753 | 150,581 |
| 44-001.0 | 44-222.4 | Sewer Group Job 768 | 463,730 | 274,800 | 188,930 |
| 44-001.0 | 44-222.5 | Sewer & Water Group Job 761 | 260,491 | 126,395 | 134,096 |
| 44-001.0 | 44-222.6 | Sewer Group Job 762 | 441,828 | 206,923 | 234,905 |
| 44-001.0 | 44-222.7 | Sewer & Water Group Job 763 | 429,440 | 115,344 | 314,096 |
| 44-001.0 | 44-222.8 | Sewer & Water Group 766 | 502,676 | 261,070 | 241,606 |
| 44-001.0 | 44-222.9 | Sewer Group Job 900 | 49,523 | 33,229 | 16,294 |
| 44-001.0 | 44-223.0 | Sewer Group Job 901 | 330,261 | 274,078 | 56,183 |
| 44-001.0 | 44-223.1 | Sewer Group Job 902 | 167,611 | 153,577 | 14,034 |
| 44-001.0 | 44-223.2 | Sewer Group Job 903 | 354,343 | 337,898 | 16,445 |
| 44-001.0 | 44-223.3 | Sewer Group Job 904 | 321,067 | 305,754 | 15,313 |
| 44-001.0 | 44-223.5 | Sewer Group 742 A | 216,350 | 8,421 | 207,929 |
| 44-001.0 | 44-223.6 | Sewer Group 747 A | 1,755,050 | 1,461,467 | 293,583 |
| 44-001.0 | 44-224.0 | Sewer & Water GJ764A | 223,687 | 90,654 | 133,033 |
| 44-001.0 | 44-224.1 | Sewer & Water GJ789 | 146,436 | 41,752 | 104,684 |
| 44-001.0 | 44-224.7 | Sewer & Water Group Job 774 | 367,265 | 82,891 | 284,374 |
| 44-001.0 | 44-224.8 | Sewer & Water Group Job 775 | 160,349 | 53,411 | 106,938 |
| 44-001.0 | 44-224.9 | Sewer Group Job 776 | 103,077 | 25,982 | 77,095 |
| 44-001.0 | 44-225.0 | Sewer & Water Group Job 778 | 143,033 | 32,571 | 110,462 |
| 44-001.0 | 44-305.8 | Sewer Group 516 | 455,038 | 221,216 | 233,822 |

| | | | | | |
|---|----------|--|-------------------------|--------------------|----------------------|
| 44-001.0 | 44-305.9 | Sewer Group 616 | 3,290,573 | 2,460,254 | 830,319 |
| 44-001.0 | 44-306.2 | Sewer Group 619 | 2,486,641 | 444,317 | 2,042,324 |
| 44-001.0 | 44-309.6 | Sewer Group 640 | 4,941,885 | 3,403,274 | 1,538,611 |
| 44-001.0 | 44-309.7 | Sewer Group Job 632 Sewer Main Replacement | 5,051,638 | 2,240,093 | 2,811,545 |
| 44-001.0 | 44-309.8 | Sewer Main Group 626A Sewer Main Replacement | 1,044,240 | 536,441 | 507,799 |
| 44-001.0 | 44-310.1 | Sewer Group 691 | 531,220 | 61,148 | 470,072 |
| 44-001.0 | 44-310.2 | Sewer Group 692 Sewer Replacement Main | 2,395,769 | 1,886,817 | 508,952 |
| 44-001.0 | 44-310.3 | Sewer Group 693 Sewer Main Replacement | 436,573 | 8,754 | 427,819 |
| 44-001.0 | 44-310.5 | Sewer Group 695 Sewer Main Replacement | 131,896 | 5,824 | 126,072 |
| 44-001.0 | 44-310.6 | Sewer Group 725 Sewer Main Replacement | 459,338 | 4,151 | 455,187 |
| 44-001.0 | 44-310.7 | Sewer Group 697 Sewer Main Replacement | 2,231,825 | 663,850 | 1,567,975 |
| 44-001.0 | 44-310.8 | Sewer Group 698 Sewer Main Replacement | 607,406 | 8,325 | 599,081 |
| 44-001.0 | 44-310.9 | Sewer Group 699 Sewer Main Replacement | 3,777,590 | 824,466 | 2,953,124 |
| 44-001.0 | 44-311.0 | Sewer Group 700 | 1,546,827 | 609,693 | 937,134 |
| 44-001.0 | 44-311.2 | Sewer Group 702 Sewer Main Replacement | 858,160 | 350,427 | 507,733 |
| 44-001.0 | 44-311.4 | Sewer Group 704 Sewer Main Replacement | 1,689,056 | 1,059,680 | 629,376 |
| 44-001.0 | 44-311.6 | Sewer Group 706 Sewer Main Replacement | 1,445,964 | 715,086 | 730,878 |
| 44-001.0 | 44-311.7 | Sewer Group 707 Sewer Main Replacement | 2,827,303 | 2,332,836 | 494,467 |
| 44-001.0 | 44-311.8 | Sewer Group 708 Sewer Main Replacement | 2,153,825 | 609 | 2,153,216 |
| 44-001.0 | 44-311.9 | Sewer Group 539 Sewer Main Replacement | 3,899,122 | 2,702,189 | 1,196,933 |
| 44-001.0 | 44-312.2 | Sewer Group Job 714 | 378,640 | 1,802 | 376,838 |
| 44-001.0 | 44-312.3 | Sewer Group Job 715 | 423,699 | 15,763 | 407,936 |
| 44-001.0 | 44-312.4 | Sewer Group Job 716 | 542,510 | 20,700 | 521,810 |
| 44-001.0 | 44-313.0 | Sewer Group 718 | 2,176,157 | 659,106 | 1,517,051 |
| 44-001.0 | 44-313.1 | Sewer Group Job 719 | 3,312,481 | 2,392,208 | 920,273 |
| 44-001.0 | 44-314.0 | Sewer Group 722 | 1,682,468 | 1,222,222 | 460,246 |
| 44-001.0 | 44-314.1 | Sewer Group 723 | 270,411 | 77,290 | 193,121 |
| 46-180.0 | 46-180.1 | Point Loma Admin Building Interior Improvmnt | 621,112 | 17,106 | 604,006 |
| 46-180.0 | 46-181.2 | Force Main 1 Inspection and Repair PH 3 | 1,827,320 | 1,001,764 | 825,556 |
| 46-194.0 | 46-198.1 | Pacific Bch - La Jolla TS#3 | 274,254 | 20,525 | 253,729 |
| 46-106.0 | 46-600.1 | Sewer Pump Station #61 | 7,660,249 | 92,627 | 7,567,622 |
| 46-106.0 | 46-603.0 | Sewer Pump Station #49 | 2,116,210 | 310,645 | 1,805,565 |
| 46-106.0 | 46-603.1 | Sewer Pump Station #39 | 1,251,185 | 278,416 | 972,769 |
| 46-106.0 | 46-603.2 | Sewer Pump Station #59 | 1,212,463 | 713,264 | 499,199 |
| 46-106.0 | 46-603.4 | SP STA# 52,53, 55, 56, 58 | 1,133,865 | 15,885 | 1,117,980 |
| 46-106.0 | 46-603.6 | Sewer Pump Station #42 | 2,834,577 | 1,711,908 | 1,122,669 |
| 46-106.0 | 46-603.7 | Sewer Pump Station #50 | 2,022,023 | 974,618 | 1,047,405 |
| 46-106.0 | 46-603.8 | Sewer Pump Station 3-23 | 1,475,039 | 813,879 | 661,160 |
| 46-106.0 | 46-604.0 | Pump Station 63 Replacement | 381,518 | 104,325 | 277,193 |
| 46-106.0 | 46-604.1 | Sewer Pump Station 25, 31, 32, 33, 40 | 1,898,644 | 1,320,685 | 577,959 |
| 46-106.0 | 46-604.2 | Cottontail Canyon Swr PS | 71,405 | 23,764 | 47,641 |
| Projects not listed in CIP Budget: | | | | | |
| 00-100.2 | | Hawkins, Delafield & Wood LLP | - | 90,358 | (90,358) |
| 00-100.3 | | Orrick, Herrington & Sutcliffe | - | 194,520 | (194,520) |
| 00-100.4 | | CDIAC Reporting Fees | - | 3,000 | (3,000) |
| 00-100.5 | | Wells Fargo Trustee Fees | - | 2,800 | (2,800) |
| 00-100.6 | | White & Case | - | 25,000 | (25,000) |
| 00-100.7 | | Webster & Anderson | - | 18,651 | (18,651) |
| Total | | | \$ 1,536,859,306 | 152,219,032 | 1,384,640,274 |

CITY OF SAN DIEGO

Independent Accountant's Report on
Agreed-Upon Procedures
Applied to Water Fund
Transfers To Other Funds



Mayer Hoffman McCann P.C.
An Independent CPA Firm
Conrad Government Services Division
2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

Office of the Mayor
City of San Diego

Independent Accountant's Report on Agreed-Upon Procedures
Applied to Water Fund Transfers to Other Funds

We have applied the procedures enumerated below to the City of San Diego's transfers out and interfund charges (including Service Level Agreement charges) paid by the Water Fund for the fiscal year ended June 30, 2003. These procedures, which were agreed to by the City of San Diego were performed solely to assist the City in determining whether or not interfund charges and transfers applied to the Water Fund were in accordance with generally accepted accounting principles.

This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results of those procedures were as follows:

1. We obtained a summary of expenses by account name for the Water Fund. We identified accounts that were likely to include charges from other funds and transfers to other funds.

Results: Interfund activities were recorded as either transfers or expenses of the Water Fund. The expense charges can be further broken into Service Level Agreement (SLA) charges and other charges initiated by journal entries. The following summarizes the universe of interfund activities evaluated for the year ended June 30, 2003:

| | |
|---------------------------------------|---------------------|
| Service Level Agreements – Operating | \$ 9,772,045 |
| Service Level Agreements – Capital | 4,400,529 |
| Transfers to Other Funds | 2,252,138 |
| General Government Service Allocation | <u>3,034,803</u> |
| Total | <u>\$19,459,515</u> |

2. We obtained a list of the transfers out of the Water Fund for the year ended June 30, 2003 totaling \$2,252,138. We tested 100% of the transfers to determine whether the transfer resulted in a benefit to the Water Fund and to determine whether the allocation methodology was reasonable in those instances where costs were allocated among various funds of the City.

Results: The transfers tested benefited the Water Fund and were allocated equitably between the funds of the City (for \$1,607,932 or 71% of the transfers), except as follows:

- a. \$280,000 Transfer to General Fund: This budgeted transfer allocated 17.5% of construction costs for the Kiddie Hall playground. The office building adjacent to the playground is utilized by employees associated with various departments of the City, including the Water Department. However, the transfer from the Water Department does not appear to be supported by any verifiable computation of the percentage of the building utilized by employees of the Water Fund.

Recommendation: We recommend that the General Fund reimburse the Water Fund for a portion of this transfer (based on the percentage of the adjacent building not utilized by Water Department employees).

- b. \$238,475 Transfer to General Fund: This transfer allocated the cost of the Equal Opportunity Contracting Program. The program pays for compliance, research, and other costs associated with providing small construction companies an equal opportunity to participate. The Water Fund paid 46% of the project costs for the year ended June 30, 2003. However, City personnel estimate that approximately 16% of these projects were Water Fund projects (based on number of projects since inception of program). The 46% allocation was determined many years ago and has not been adjusted to reflect a more equitable allocation.

Recommendation: We recommend that the City allocate costs of this program based on the number of participating project from each department. The allocation base should be reevaluated and adjusted annually.

- c. \$79,629 Transfer to General Fund: This transfer allocated 19.47% of the cost of lobbying contracts. The lobbying costs are allocated to the following City funds that are regularly engaged in lobbying activities: General Fund, Airport Fund, Environmental Services, Water Fund, Development Services, and the Wastewater Fund. The allocation is based on each participating fund's expenditure budget as a percentage of the whole. The allocation does not appear to align the benefits received by each fund with the cost of the program.

Recommendation: The allocation should be based on specific lobbying activities using information received from the lobbyist.

- d. \$35,085 transfer to the Special Training Fund: This was a budgeted transfer for reimbursement of the Career Development & Mentoring Program. Per discussions with City personnel, the program was specifically for "field employees" and was charged to four enterprise funds (Water, MWW, Development Services, and Environmental Services). The four enterprise funds accounted for 46% of the transfers used to fund the program. These funds appear to have been overcharged for the benefits to City funds with other field

employees. Additionally, the share of costs between the four funds does not appear to be supported by the number of field employees in each fund.

Recommendation: We recommend that the City evaluate the current allocation methodology and modify it to better align with the benefits to the Water Fund.

- e. \$11,017 Transfer to Special Training Fund: This transfer allocated certain costs of the Equal Employment Opportunity Program. These costs are only funded by six of the City's enterprise funds. The Water Fund paid 30% of the costs. The allocation does not appear to reflect the benefits provided to the Water Fund since employees of non-enterprise funds were not charged for the costs of the program. The Equal Employment Opportunity Program is funded through user charges based on employee attendance at seminars. However, this additional charge (totaling \$36,403 for all six enterprise funds), was intended to partially pay for the salary of the Human Resources' Director's assistant who provided the training services.

Recommendation: Since the program is funded through user charges based on employee attendance, additional transfers should not be made to cover other unfunded portions of the program. Instead, the City should change the user rates to adequately cover the costs of the program.

- 3. We obtained a list of all SLA agreements for the year ended June 30, 2003 and selected the three largest agreements for testing (amounting to over 50% of total expenditures for all SLAs). We obtained a copy of the three SLA agreements, met with personnel responsible for development of the SLA, and determined whether the benefit received by the Water Department was sufficient to justify the costs of the SLAs.

Cities utilize fund accounting to track specific functions or activities of the government. It is common for employee payroll costs to be charged to multiple funds based on the benefits received by each fund. There are several ways to allocate employee costs to various funds of the City. An employee's costs could be recorded in one fund of the City and a journal entry could be generated to charge another fund for a portion of that employee's payroll costs based on an estimate of time spent benefiting the other fund. A more accurate way to allocate employee costs is to have employees keep track of their time on a daily basis and directly charge the benefiting fund based on the employee's timesheet entries.

Results: The City of San Diego utilizes the timesheet method for allocating labor between funds which conforms to the "best practices" method of documentation of allocation of personnel costs. The three SLA agreements selected and the results of our testwork are as follows:

Engineering & Capital Projects / Water & Wastewater Facilities

| | |
|-------------------------|-------------|
| Budgeted expenditures - | \$4,239,299 |
| Actual expenditures - | 3,251,531 |

The SLA provides labor for the construction of 12 miles of water main and water pipeline projects. All of the charges to the Water Fund were based on employee timesheet charges. Employees working on specified projects covered by the SLA tracked actual time spent on the project on their timesheets. The payroll system allocates a percentage of the employees' payroll costs based on the employee timesheets.

Monthly meetings were held with the Water Department to discuss the progress of each project covered in the SLA. The Water Department was provided with reports documenting accumulated expenditures and project status. The Water & Wastewater Facilities Division was not able to provide us with a report providing evidence that 12 miles of water main and water pipeline projects were constructed during the year.

We selected four employees who charged their time through this SLA. We selected a pay period and tested the four employee's time cards. We traced the labor charge recorded in the City's accounting records under the SLA to the employee time cards.

We interviewed two employees who charged their time to projects under the SLA. We inquired with each employee if they were encouraged to overcharge time on their time cards for time spent on water projects. In each interview, the employee stated that only actual hours spent on each water project were charged, and that they were unaware of any other employee or department that was encouraged to overcharge water projects.

Recommendation: City documentation policies conform to accepted methodologies. In response to community concerns, we recommend that the Water & Wastewater Facilities Department augment this standard level of documentation with monthly reports describing in detail the benefits provided to the Water Department.

Engineering & Capital Projects / Field Engineering

| | |
|-------------------------|-------------|
| Budgeted expenditures - | \$2,270,456 |
| Actual expenditures - | 2,219,273 |

The SLA provides for reimbursement of labor and non-labor costs provided by the Field Engineering & Water Department for providing engineering and design support, construction management, surveying, soils, and materials testing. The department also provides construction management services. The SLA costs are divided into 95% timesheet driven labor costs and 5% non-labor charges. Meetings were held with the Water Department to discuss the progress of the projects covered in the SLA. The Field Engineering & Water Department provided detailed Excel-based reports identifying total costs by project (including by SLA charges and payments to 3rd party vendors). The

portion of these activities that are funded by SLA charges is not identified on these reports.

We selected three employees who charged their time through this SLA. We selected a pay period and tested the three employee's time cards. We traced the labor charge under the SLA to the employee time cards.

We interviewed two employees who charged their time to the SLA. We inquired with each employee if they were encouraged to overcharge time on their time cards for time spent on water projects. In each interview, the employee stated that only actual hours spent on each water project were charged, and that they were unaware of any other employee or department that was encouraged to overcharge water projects.

Recommendation: City documentation policies conform to accepted methodologies. In response to community concerns, we recommend that the Field Engineering & Water Department augment this standard level of documentation with monthly reports describing in detail the benefits provided to the Water Department.

City Attorney's Office

| | |
|-------------------------|-------------|
| Budgeted expenditures - | \$1,611,672 |
| Actual expenditures - | 1,583,966 |

The SLA provides for enhanced legal services provided by the City Attorney's Office in the following areas: Advisory & Transaction Legal Services, Capital Improvement Program Legal Services, Construction Litigation Services, Code Enforcement Unit, and Civil Enforcement Unit. The SLA costs are divided into 96% timesheet driven labor costs and 4% non-labor charges. While the SLA only covers enhanced legal services, we noted that employees in the City Attorney's office charged all time spent on Water legal issues through the SLA agreements. Since this SLA is only authorized for *enhanced* legal services, then employees in the department should only charge their time to the Water Fund when they are working on the enhanced legal issues, not all Water related legal issues.

The City Attorney's office did not provide reports to the Water Fund documenting the actual services that were provided to the Water Fund.

We selected three employees who charged their time through this SLA. We selected a pay period and tested the three employee's time cards. We traced the labor charge under the SLA to the employee time cards.

We interviewed eleven employees and former employees of the City Attorney's Office during the audit period. We inquired as to the method and practices used in charging time to water projects.

As a result of our interviews with employee's of the City Attorney's office, we found that the practice of the City Attorney's office during fiscal year 2002-03 was as follows: Each year, the City Attorney's office would make an assessment of the level of service that was required by the various departments of the City. Staffing actions would be taken to provide the resources to meet that commitment of service level. Employees were assigned to serve the various city departments based upon the planned needs of each department. These assigned employees were then instructed to charge their time on their time sheets to each fund/department in a manner consistent with their assigned areas of responsibility and planned utilization. This was done under the justification that funding for these positions should be consistent with the staffing decisions made by the City and the commitments of personnel made to the various departments of the City. These persons were then made available to the departments to which they were committed.

This practice meant that funds were allocated based on assigned areas of responsibility and *planned* utilization, rather than how the *actual* time provided by City Attorney personnel was expended in serving the various departments of the City. As a result, this practice is not consistent with generally accepted accounting principles. Under generally accepted accounting principles, labor should be charged to cost centers for only the actual service provided.

This practice fostered an environment where ethical conflicts were created between management of the City Attorney's office and employees of the department. Some employees refused to charge their time according to management instruction (based upon their assigned areas). In certain cases, management changed the time charged by employees to conform to funding assignments for those persons or instructed support personnel to code time to cost centers to make up for any undercharging by other personnel of the City Attorney's office. These practices appear to have been performed to secure the anticipated funding of the activities of the City Attorney's office. Our interviews indicated that this practice was substantially discontinued in fiscal year 2003-04 shortly after the current City Attorney took office.

When the actual utilization of City Attorney personnel approximated planned utilization, charges to the Water fund were not materially misstated. However, because the City Attorney's office time cards reflected their assigned areas of availability, rather than the actual results of their time expended each pay period, it is not possible to ascertain the extent to which the *planned* use of assigned personnel did or did not conform to the *actual* hours expended by each employee for each project/activity. [Total labor charges by the City Attorney's office to the Water Fund amounted to less than 1% of the total expenses of the Water Fund.]

The above described manipulation of the City's timekeeping system was justified to employees of the City Attorney's office as a "retainer" system. Our interviews with employees of other departments of the City disclosed no evidence that these practices of timekeeping were in place at other departments of the City during fiscal year 2002-03.

Recommendation: City Attorney personnel should be instructed to charge their time on their time cards in accordance with their *actual hours expended* rather than a predetermined allocation of time that conforms to their *planned utilization* by the various departments to which they were assigned. We recommend that the City Attorney's Office also provide monthly reports describing in detail the benefits that were provided to the Water Department that month. Furthermore, since the City Attorney's service level agreements only provide for *enhanced* levels of service, City Attorney employees should be directed to only charge their time to the Water Fund when working on *enhanced* legal services. Alternatively, the City may choose to change the authorized scope of this agreement to include all legal services (rather than only enhanced levels of service, as provided in the agreement).

We recommend that the City implement procedures to emphasize the ethical integrity of City procedures and practices. This would include a clear statement acknowledging the ethical expectations of the City. Procedures should be established specifying the person/persons that employees should contact regarding questionable instructions from supervisors and other questionable activities. Training should be provided regarding ethical behavior in the workplace. We further recommend that the City evaluate any employees currently employed by the City that may have participated in inappropriate practices in the past. An assessment should be made as to whether or not those persons need to be re-trained or other appropriate action taken.

Should the City choose to continue charging the Water and Sewer Fund for salaried personnel of the City Attorney's office, we recommend that the City explore the possibility of upgrading its payroll system to provide a more accurate allocation of costs to various cost centers. This would include the identification of projects/activities, not just funds/departments on the time cards and in the labor distribution system.

We further recommend that this system allow for costing to cost centers that would accommodate hours of service for salaried personnel in excess of the standard 80 hour pay period. The pay of a salaried individual is fixed regardless of the number of hours worked that pay period. Under generally accepted accounting principles, the fixed cost of each salaried employee's compensation for a given pay period should be allocated to the various funds/departments served by that employee in proportion to the hours actually expended for each fund/department.

This means that when a salaried employee works more than 80 hours in a pay period (for example, 89 hours), the effective hourly rate of that employee associated with each of the 89 hours is less than the effective hourly rate of that employee when only 80 hours of service was provided. More accurate interfund charging is accomplished when a payroll system re-computes a new hourly rate for each salaried employee for each pay period depending upon the total number of hours worked by that salaried employee that pay period. Each pay period, this re-computed hourly rate would be applied to the hours charged to each fund/department per the time card so that the total of the costs recorded for that employee that pay period would conform to his or her fixed salary amount for that pay period.

Generally accepted accounting principles provide that hours not associated with projects or activities of any specific fund of the City should be charged to the General Fund of the City or included within the general government costs of the City that are recovered through a properly structured cost allocation plan.

4. For other charges to the Water Fund that was neither a Transfer nor a SLA, we selected a sample of transactions and obtained the journal entry for testing. We determined whether the transaction resulted in a benefit to the Water Fund and determined whether the allocation methodology was reasonable in those instances where costs are allocated amongst various funds of the City.

Results: The City allocates indirect costs of the General Fund to other City Funds through the General Government Services Charge. For the year ended June 30, 2003, the charge to the Water Fund was \$3,034,803. The charge is broken into General Fund departments. We selected the largest departmental charges to the Water Fund, City Attorney's Office and Auditor-Comptroller's Office, and evaluated the allocation base and methodology as noted below.

City Attorney's Office

The City Attorney's indirect costs charged to the Water Fund were \$458,250 for the year ended June 30, 2003. We obtained the *Departmental Allocable Costs* report from the accounting system that details the City Attorney's costs by department and expense type. This report includes all costs of the City Attorney's office. To determine the allocation base, the total of the report was reduced by the SLA charges. The remaining costs not funded through SLA's were totaled and allocated to other City Funds based on each Fund's personnel costs as a percentage of total personnel costs. This methodology is an acceptable practice under generally accepted accounting principles. We recalculated the SLA charges noted on the report for the Water Fund and agreed them to the SLA charges per the accounting system. We noted that the actual SLA charges per the accounting system were approximately \$70,000 lower than the SLA charges reported on the *Departmental Allocable Costs* report. Thus, the amount allocated through the general government services charge was less than it should have been.

Auditor-Comptroller's Office

The Auditor-Comptroller's indirect costs charged to the Water Fund were \$614,088 for the year ended June 30, 2003. We obtained the *Departmental Allocable Costs* report from the accounting system that details the Auditor-Comptroller's costs by department and expense type. This report includes all costs of the Auditor-Comptroller's office. To determine the allocation base, the total of the report is reduced by the SLA charges. We recalculated the SLA charges noted on the report for the Water Fund and agreed them to the SLA charges per the accounting system without material exception. The remaining costs not funded through SLA's are totaled and allocated to other City Funds based on

each Fund's personnel costs as a percentage of budgeted expenditures, excluding capital expenditures. This methodology is an acceptable practice under generally accepted accounting principles.

* * * * *

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the subject matter. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the City of San Diego, California and is not intended to be and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Nayer Hoffman Melann P.C.

Irvine, California
August 2, 2006

CITY OF SAN DIEGO

Independent Accountant's Report on
Agreed-Upon Procedures
Applied to Wastewater Fund
Transfers to Other Funds



Mayer Hoffman McCann P.C.
An Independent CPA Firm
Conrad Government Services Division
2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

Office of the Mayor
City of San Diego

Independent Accountant's Report on Agreed-Upon Procedures
Applied to Wastewater Fund Transfers to Other Funds

We have applied the procedures enumerated below to the City of San Diego's transfers out and interfund charges (including Service Level Agreement charges) paid by the Wastewater Fund for the fiscal year ended June 30, 2003. These procedures, which were agreed to by the City of San Diego were performed solely to assist the City in determining whether or not interfund charges and transfers applied to the Wastewater Fund were in accordance with generally accepted accounting principles.

This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results of those procedures were as follows:

1. We obtained a summary of expenses by account name for the Wastewater Fund. We identified accounts that were likely to include charges from other funds and transfers to other funds.

Results: Interfund activities were recorded as either transfers or expenses of the Wastewater Fund. The expense charges can be further broken into Service Level Agreement (SLA) charges and other charges initiated by journal entries. The following summarizes the universe of interfund activities evaluated for the year ended June 30, 2003:

| | |
|---------------------------------------|---------------------|
| Service Level Agreements – Operating | \$13,275,065 |
| Service Level Agreements – Capital | 21,575,156 |
| Transfers to Other Funds | 2,189,849 |
| General Government Service Allocation | <u>3,395,658</u> |
| Total | <u>\$40,435,728</u> |

2. We obtained a list of the transfers out of the Wastewater Fund for the year ended June 30, 2003 totaling \$2,189,849. We tested 100% of the transfers to determine whether the transfer resulted in a benefit to the Wastewater Fund and to determine whether the allocation methodology was reasonable in those instances where costs were allocated among various funds of the City.

Results: The transfers tested benefited the Wastewater Fund and were allocated equitably between the funds of the City for \$1,761,157 or 80% of the transfers, with the exception of the following:

- a. \$254,302 Transfer to General Fund: This transfer allocated the cost of the Equal Opportunity Contracting Program. The program pays for compliance, research, and other costs associated with small capital improvement projects allowing an equal opportunity for small construction companies to participate. The Wastewater Fund paid 49% of the project costs for the year ended June 30, 2003. However, City personnel estimate that approximately 5% of these projects were Wastewater Fund projects (based on number of projects since inception of program). The 49% allocation was determined many years ago and has not been adjusted to reflect a more equitable allocation.

Recommendation: We recommend that the City allocate costs of this program based on the number of participating project from each department. The allocation base should be reevaluated and adjusted annually.

- b. \$87,353 Transfer to General Fund: This transfer allocated 21.36% of the cost of lobbying contracts. The lobbying costs were allocated to the following City funds that are regularly engaged in lobbying activities: General Fund, Airport Fund, Environmental Services, Wastewater Fund, Development Services, and the Water Fund. The allocation was based on each participating fund's expenditure budget as a percentage of the whole. The allocation does not appear to align the benefits received by each fund with the cost of the program.

Recommendation: The allocation should be based on specific lobbying activities based on information received from the lobbyist.

- c. \$73,407 transfer to the Special Training Fund: This was a budgeted transfer for reimbursement of the Career Development & Mentoring Program. Per discussions with City personnel, the program was specifically for "field employees" and is only charged to four enterprise funds (Wastewater, Water, Development Services, and Environmental Services). The four enterprise funds account for 46% of the transfers in to fund the program. These funds appear to have been overcharged for the benefits to the funds with other field employees. Additionally, the share of costs between the four funds does not appear to be supported by the number of field employees in each fund.

Recommendation: We recommend that the City evaluate the current allocation methodology and modify it to better align with the benefits to the Wastewater Fund.

- d. \$13,630 Transfer to Special Training Fund: This transfer allocated certain costs of the Equal Employment Opportunity Program. These costs were only funded by six of the City's enterprise funds. The Wastewater Fund paid 37% of the

costs. The allocation does not appear to be reflective of the benefits provided to the Wastewater Fund since employees of non-enterprise funds were not charged for the cost of the program. The program is funded through user charges based on employee attendance at seminars. However, this additional charge (totaling \$36,403 for all six enterprise funds), was intended to partially pay for the salary of the Human Resources' Director's assistant who provided training services.

Recommendation: Since the program is already funded through user charges based on employee attendance, additional transfers should not be made to cover other unfunded portions of the program. Instead, the City should change the user rates to cover the costs of the program

3. We obtained a list of all SLA agreements for the year ended June 30, 2003 and selected the three largest agreements for testing (amounting to over 55% of total expenditures for all SLA's). We obtained a copy of the three SLA agreements, met with personnel responsible for development of the SLA, and determined whether the benefit received by the Wastewater Department was sufficient to justify the costs of the SLA's.

Cities utilize fund accounting to track specific functions or activities of the government. It is common for an employee's payroll costs to be charged to multiple funds based on the benefits received by each fund. There are several ways to allocate employee costs to various funds of the City. An employee's costs could be recorded in one fund of the City and a journal entry could be generated to charge another fund a portion of that employee's payroll costs based on an estimate of time spent benefiting the other fund. A more accurate way to allocate employee costs is to have employees keep track of their time on a daily basis and directly charge the benefiting fund based on the employee's timesheet entries.

Results: The City of San Diego utilizes the timesheet method for allocating labor between funds which conforms to the "best practices" method of documentation of allocation of personnel costs. The three SLA agreements selected and the results of our testwork are as follows:

General Services / Facilities Maintenance

| | |
|-------------------------|-------------|
| Budgeted expenditures - | \$1,398,121 |
| Actual expenditures - | 2,106,783 |

The SLA provides fourteen full-time positions to provide preventative maintenance, general repair and maintenance, and improvements as required and necessary for the efficient operation of City facilities and related equipment (elevators, heating, air conditioning systems, boilers, etc.). All of the charges to the Wastewater Fund were based on employee timesheet charges. Employees working on specified projects covered by the SLA tracked actual time spent on the project on their timesheets. The payroll

system allocates a percentage of the employees' payroll costs based on the employee timesheets.

We selected two employees who charged their time through this SLA. We selected a pay period and tested the two employee's time cards. We traced the labor charge under the SLA to the employee time cards.

Recommendation: City documentation policies conform to accepted methodologies. In response to community concerns, we recommend that the Facilities Maintenance Division augment this standard level of documentation with monthly reports describing in detail the benefits provided to the Metropolitan Wastewater Department.

Engineering & Capital Projects / Water & Sewer Design

| | |
|-------------------------|--------------|
| Budgeted expenditures - | \$19,331,769 |
| Actual expenditures - | 15,451,134 |

The purpose of the SLA is to establish collaborative supportive roles of each division for different phases of capital improvement projects including sewer main replacements, trunk sewers, sewer pump stations, and unscheduled accelerated projects. The Water & Sewer Design division provided project management, engineering and design, construction management, and contract support services to the Metropolitan Wastewater Department. The SLA budgeted costs are divided into 72% timesheet driven labor costs and 28% non-labor charges (totaling \$5,413,858). The Water & Sewer Design division was 100% reimbursable by the Water and Wastewater SLAs. All costs of the division were allocated to Water and Wastewater based on the percentage of capital expenditures related to the managed projects. For the year ended June 30, 2003, the Wastewater Fund paid 67% of the costs of this division.

The SLA agreement covers the following non-labor costs: training, transportation, workstations, computers, printers, office space, supplies, telephone, mainframe usage, network access, hardware/software purchases, computer maintenance, and San Diego Data Processing labor charges. When reviewing the types of charges covered by the SLA, we noted that additional expenses were charged that were not specifically covered in the SLA such as the general government indirect cost allocation of approximately \$518,000 and legal fees of almost \$390,000. While we found no evidence that these costs were inappropriately charged to the Wastewater Fund, these particular cost categories were not specifically set forth in the service level agreement as authorized costs to be charged to the Wastewater Fund.

We selected twenty transactions accounting for over \$800,000 of the total non-labor charges for additional testing. Each of these twenty transactions were allowable non-labor costs under the SLA agreement.

We selected four employees who charged their time through this SLA. We selected a pay period and tested the four employee's time cards. We traced the labor charge under the SLA to the employee time cards.

We interviewed two employees who charged their time to the SLA. We inquired with each employee if they were encouraged to overcharge time on their time cards for time spent on Wastewater projects. In each interview, the employee stated that only actual hours spent on each Wastewater project were charged, and that they were unaware of any other employee or department that was encouraged to overcharge Wastewater projects.

Recommendation: City documentation policies conform to accepted methodologies. In response to community concerns, we recommend that the Water & Sewer Design division augment this standard level of documentation with monthly reports describing in detail the benefits provided to the Wastewater Department. The SLA agreement should also be modified to include all allowable non-labor costs that are intended to be charged through the SLA.

Development Services Department

| | |
|-------------------------|-------------|
| Budgeted expenditures - | \$2,511,895 |
| Actual expenditures - | 1,558,123 |

The SLA provides for the coordination of environmental requirements resulting from Wastewater emergencies and urgent repairs, environmental reviews to support Wastewater projects, and ensuring that any new development is meeting the Wastewater design guide minimums. All of the charges to the Wastewater Fund were generated by direct personnel charges.

We selected three employees who charged their time through this SLA. We selected a pay period and tested the three employee's time cards. We traced the labor charge under the SLA to the employee time cards.

We interviewed two employees who charged their time to the SLA. We inquired with each employee if they were encouraged to overcharge time on their time cards for time spent on Wastewater projects. In each interview, the employee stated that only actual hours spent on each Wastewater project were charged, and that they were unaware of any other employee or department that was encouraged to overcharge Wastewater projects.

Recommendation: City documentation policies conform to accepted methodologies. In response to community concerns, we recommend that the Development Services Department augment this standard level of documentation with monthly reports describing in detail the benefits provided to the Wastewater Department.

City Attorney's Office

While the service level agreement between the City Attorney's Office and the Wastewater Fund was not one of the top three service level agreements impacting the Wastewater Fund in 2002-03 (in terms of dollars charged) and therefore was not selected for testing for the purposes of testing charges to the Wastewater Fund, the reader is referred to issues of inaccurate timekeeping practiced by the City Attorney's Office during fiscal 2002-03 that are described further in our report concerning interfund charges to the Water Fund.

4. For other charges to the Wastewater Fund that were neither a Transfer nor a SLA, we selected a sample of transactions and obtained the journal entry for testing. We determined whether the transaction resulted in a benefit to the Wastewater Fund and determined whether the allocation methodology was reasonable in those instances where costs are allocated amongst various funds of the City.

Results: The City allocates indirect costs of the General Fund to other City Funds through the General Government Services Charge. For the year ended June 30, 2003, the charge to the Wastewater Fund was \$3,395,658. The charge is broken into General Fund departments. We selected the largest departmental charges to the Wastewater Fund, Auditor-Comptroller's Office and City Treasurer's Office, and evaluated the allocation base and methodology as noted below.

Auditor-Comptroller's Office

The Auditor-Comptroller's indirect costs charged to the Wastewater Fund were \$656,718 for the year ended June 30, 2003. We obtained the *Departmental Allocable Costs* report from the accounting system that details the Auditor-Comptroller's costs by department and expense type. This report includes all costs of the Auditor-Comptroller's office. To determine the allocation base, the total of the report is reduced by the SLA charges. The remaining costs not funded through SLA's were totaled and allocated to other City Funds based on each Fund's personnel costs as a percentage of budgeted expenditures, excluding capital expenditures. This methodology is an acceptable practice under generally accepted accounting principles. We recalculated the SLA charges noted on the *Departmental Allocable Costs* report for the Wastewater Fund and agreed them to the SLA charges per the accounting system, without material exception, to test that the Auditor-Comptroller's Office costs were not double charged both through the SLA and the general government services allocation.

City Treasurer's Office

The City Treasurer's indirect costs charged to the Wastewater Fund were \$521,220 for the year ended June 30, 2003. We obtained the *Departmental Allocable Costs* report from the accounting system that details the City Treasurer's costs by department and expense type. This report includes all costs of the City Treasurer's Office. To determine the allocation base, the total of the report is reduced by the SLA charges. The remaining

costs not funded through SLA's were totaled and allocated to other City Funds based on each Fund's cash receipts as a percentage of total cash receipts. This methodology is an acceptable practice under generally accepted accounting principles. The City Treasurer's Office costs associated with the general government services allocation are not also associated with an SLA.

* * * * *

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the subject matter. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the City of San Diego, California and is not intended to be and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Maya Hoffman McCann P.C.

Irvine, California
August 2, 2006

**Office of
The City Attorney
City of San Diego**

MEMORANDUM

533-5800

DATE: August 7, 2006
TO: Jay Goldstone, Chief Financial Officer
FROM: Tom Zeleny, Deputy City Attorney
SUBJECT: Implementation of the Independent Accountant's recommendations

In response to the two reports regarding the transfer of water and wastewater funds to other City departments issued by Mayer Hoffman McCann, the City Attorney's Office is implementing the policies and procedures set forth in the attached memorandum to all City Attorney's Office personnel. These policies and procedures address all the recommendations set forth in the reports regarding the City Attorney's Office. Please contact me if you have any questions.

**Office of
The City Attorney
City of San Diego**

**MEMORANDUM
MS 59**

533-5800

DATE: August 4, 2006

TO: All City Attorney's Office personnel

FROM: Tom Zeleny, Deputy City Attorney

SUBJECT: Independent Accountant's recommendations regarding the billing of the Water and Sewer Funds

INTRODUCTION

A few months ago, the Mayor's Office hired the firm of Mayer Hoffman McCann ("MHM"), an accounting firm, to audit certain aspects of the City's Water and Wastewater Departments. Both departments are facing stricter regulatory requirements that may obligate the City to increase water and sewer rates to achieve compliance. Before recommending any rate increases, the Mayor's Office needs assurances that the funds currently being collected for water and sewer purposes are being spent properly. One component of the audit was to review the propriety of transfers of water and sewer funds to other City departments in FY02. The final reports regarding these transfers are being released Monday.

In its reports, MHM concludes that of all the departments interviewed, only the City Attorney's Office was not billing the water and sewer funds based on actual hours worked. MHM criticizes the Office's past practice of billing based on "planned utilization," indicating such a practice is inconsistent with generally accepted accounting principles. MHM recommends a number of changes be implemented with regard to the billing of the water and sewer funds. The City Attorney is immediately implementing these recommendations. MHM's recommendations, and the plan to implement them, are outlined below.

RECOMMENDATIONS

Recommendation No. 1: All City Attorney personnel should charge their time on their time cards in accordance with their actual hours expended rather than a predetermined allocation.

The City Attorney previously instructed all personnel to charge only for hours actually worked. Some questions have come up as to whether certain meetings and other activities are

appropriate to charge to the water and sewer funds. A list of these meetings and activities will be created and distributed along with determinations as to whether each is appropriate to bill to the water and sewer funds, or the general fund.

Recommendation No. 2: The City Attorney's Office should provide monthly reports describing in detail the work performed for the water and sewer departments.

Since the Grand Jury issued its report on service level agreements a few months ago, attorneys advising the water and wastewater departments have been recording the actual activities performed for the departments each day, along with the actual hours worked. Support staff working with these attorneys are also listing their activities and hours worked, or will be soon. These reports being generated by the attorneys and staff can be transmitted to the water and sewer departments on a monthly basis, though it may be preferable to coincide the reports with the end of a pay period (e.g. every 4 or 6 weeks). The City Attorney's Office will confer with the various departments as to which reporting period best suits their needs.

Recommendation No. 3: Since the City Attorney's service level agreements only provide for "enhanced" levels of service, City Attorney personnel should only charge for enhanced legal services or alternatively, change the scope to include all legal services.

Generally, the types of legal services provided under the service level agreements are transactional, construction litigation, specialized regulatory litigation, civil enforcement and collections. Litigation resulting from water main breaks, sewer backups, civil service matters and torts are not included. The service level agreements with the water and wastewater departments will be modified to clarify what types of legal services are covered. The term "enhanced" only appeared in the service level agreement with the water department, and will be deleted. Please check with the chief or head deputy of the unit if there is a question whether a particular case or activity is covered by a service level agreement.

Recommendation No. 4: The City Attorney's Office should implement procedures to emphasize the ethical integrity of City procedures and practices. Employees who participated in inappropriate practices in the past should be evaluated. Training should be provided. Persons should be identified for employees to contact regarding questionable instructions from supervisors.

The City Attorney has implemented a procedure to emphasize ethical integrity through his Internal Controls Policy and Memorandum of Internal Controls dated July 31, 2006. Those employees remaining with the City Attorney's Office who were responsible for past billing policies are being evaluated. Additional training on ethics will be announced soon. All City Attorney personnel are directed to report any questionable instructions regarding billing or other improprieties directly to the City Attorney.

Recommendation No. 5: The City should explore upgrading its payroll system to provide a more accurate allocation of costs, identify projects and activities, and accommodate hours of service for salaried personnel in excess of 80 hours a pay period.

Currently, salaried personnel are limited to recording up to 8 hours a day, 40 hours a week, and 80 hours a pay period, regardless of the number of hours actually worked. Time cards which deviate from these restrictions are rejected by the system. The current time card system is an impediment to salaried personnel billing on an actual hour basis.

This recommendation has broader implications beyond the City Attorney's Office, insofar as many other departments that charge the water and wastewater departments also have salaried staff. The City Attorney's Office is working with the Personnel Director and Auditor's Office to explore ways to either modify or eliminate the current timecard system for salaried staff.

CONCLUSION

MHM indicated the difference between the budgeted amounts of the service level agreements and the actual hours worked fostered an environment where ethical conflicts arose between management of the City Attorney's Office and its employees. Implementation of MHM's recommendations is intended to relieve that tension by establishing clear billing guidelines consistent with generally accepted accounting principles, exploring alternative methods of tracking time to more accurately reflect actual hours worked, and ensuring that the water and wastewater departments are only charged for the services they receive.

It is anticipated that the procedures set forth in this memorandum will be implemented office-wide and made applicable to all City Attorney's Office personnel who bill their time to other City departments. Details regarding such implementation will be distributed as they become available.